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BEFORE THE

SUBCOMMITTEE ON DEPARTMENT OPERATIONS, RESEARCH, AND FOREIGN AGRICULTURE

OF THE

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HOUSE OF REPRESENTATIVES

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[1] Effective only for the first session of the Ninety-ninth Congress.

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U.S. EXPORT COMPETITIVENESS

TUESDAY, APRIL 16, 1985

House of Representatives,
Subcommittee on Department Operations,
Research, and Foreign Agriculture,
Committee on Agriculture,
Washington, DC.

The subcommittee met, pursuant to call, at 9:42 a.m., in room 1300, Longworth House Office Building, Hon. Berkley Bedell (chairman of the subcommittee) presiding.

Present: Representatives Penny, Volkmer, Roberts, Morrison, Gunderson, Evans of Iowa, and Combest.

Also present: Representative Siljander.

Staff present: Cristobal P. Aldrete, special counsel; John E. Hogan, minority counsel; Glenda L. Temple, clerk; Anita R. Brown, Bernard Brenner, Timothy J. Galvin, Gary R. Mitchell, and James C. Tippett.

OPENING STATEMENT OF HON. BERKLEY BEDELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. **Bedell**. The subcommittee will come to order.

The Subcommittee on Department Operations, Research, and Foreign Agriculture meets today to hear from the Department of Agriculture and public witnesses on the issue of U.S. export competitiveness. The subcommittee hopes to examine this morning such factors as the cost of producing crops in those countries which stand as our major export competitors, as well as the domestic and export subsidies offered to producers in those countries.

I come from a business background. And in business, if you want to stay competitive, you have to have some idea of what your competitors' costs are. I think we face the same situation with regard to agricultural exports. We have to know what kind of competition we are up against.

Although this type of information is hard to quantify with certainty, it is nevertheless the kind of information which we must have if we are to properly assess the likely impact of new export initiatives or a change in U.S. farm price supports.

At this time, I would also like to announce that shortly Pat Roberts and I will be releasing a study by the Library of Congress on U.S. commodity price supports and their impacts on agricultural exports, We requested this study last summer in anticipation of the 1985 farm bill debate, and I believe that this report will provide some very useful information as that debate becomes more focused.

Mr. Roberts, do you have a statement?

Mr. **Roberts**. No, sir.

Mr. **Bedell**. Mr. Morrison.

Mr. **Morrison**. Mr. Chairman, only to say that we appreciate the subcommittee dealing in this area, very obviously looking at marketing as one of the ultimate answers as far as the farm dilemma is concerned. And being the west coast representative on the subcommittee, we are particularly interested and concerned about this, and look forward to the findings that come from these hearings.

Thank you.

Mr. **Bedell**. Thank you. Mr. Evans.

Mr. **Evans** of Iowa. No, sir.

Mr. **Bedell**. Mr. Combest.

If not, our first panel consists of Hon. Richard Smith, Administrator, Foreign Agricultural Service, U.S. Department of Agriculture, and Dr. John Lee, Administrator of Economic Research Service, U.S. Department of Agriculture.

We appreciate very much your being with us today, and look forward to your testimony. Whichever one of you wishes to may go first.

STATEMENT OF JOHN E. LEE, JR., ADMINISTRATOR, ECONOMIC RESEARCH SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. **Lee**. Thank you, Mr. Chairman. I am John Lee, the Administrator of the Economic Research Service. Mr. Chairman and members of the subcommittee, I am pleased to be here today to discuss the various factors that affect the ability of U.S. agricultural producers to compete in world markets. I am accompanied by my colleague, Dick Smith, who is Administrator of the Foreign Agricultural Service.

If it is all right with the chairman, I would like to submit the written testimony for the record and limit the opening remarks to some summary points, and turn the chair to Dick Smith, who has some useful visual presentations to make to the subcommittee.

Mr. **Bedell**. Without objection, your full testimony will be entered in the record.

Mr. **Lee**. Thank you, Mr. Chairman.

Many observers argue, Mr. Chairman, that U.S. agricultural exports, that is, the volume, the value, our market share, have fallen because the United States has lost its ability to compete and has lost its competitive advantage. Our analysis suggests that the United States still has an underlying comparative advantage, but that a number of factors have inhibited our ability to utilize that comparative advantage and to sell more and to compete in the world market. These factors include the global recession; debt problems in less developed countries; trade practices and internal policies of our competitors, and sometimes our customers, that distort trade flows; the appreciation of the U.S. dollar, particularly in Europe; and very important, U.S. domestic farm programs that reduce our price competitiveness in world markets.

In our prepared testimony, we attempted to address the chairman's questions regarding comparisons of costs of production and export assistance across countries. Hard data are difficult to come by on these topics. Moreover, thorny conceptual and measurement problems and issues are involved. The Department began focusing on this research area, on these topics, sometime ago. Determining factors that affect competitiveness of U.S. agriculture in world markets and studying ways to improve that competitiveness have top priority in the agencies that Dick Smith and I represent.

Comparative advantage is a statement about the pattern of trade that would arise between countries in the absence of market distortions. We are really talking about three concepts here: Absolute advantage, comparative advantage and competitiveness. And I think it is important to try to sort those out because they allow us then to focus on the policy issues that are involved.

In absolute advantage we might be looking at absolute cost across countries. In comparative advantage we are looking at a situation that might be compared to, for example, a lawyer and his secretary, who, if the attorney can type 60 words a minute but the secretary can type only 50 words a minute, but the secretary knows no law, it still is the case that the attorney would better spend his time practicing law, with his secretary doing the typing, even though the attorney could type faster. That is the principle of comparative advantage.

A country with abundant natural resources, a high level of agricultural technology, and skilled agricultural management may have a comparative advantage in agricultural production relative to the production of industrial goods. A country like that would tend to excel in the production of ag commodities and then trade these to countries that enjoy a comparative advantage in some other products. Consumers in both countries, or in all countries would be better off because the resources would be used more efficiently, and the two countries would then produce more in total than if each attempted to be self-sufficient in all their commodities.

The data that we have for the period 1970 through 1981—that is the most recent data we have—suggests that in comparison with other countries the United States became relatively more efficient in the production of agricultural goods rather than less efficient during that period. We increased our agricultural output per unit of input in all major agricultural input categories, and we did this more than the rest of the world did. So it would appear that the United States has gained an advantage over other countries during this period.

Just as significant, the U.S. agricultural sector has increased its productivity relative to the rest of the U.S. economy. Our whole economy has been improving its productivity, but agricultural productivity has been growing even faster. And this comparison indicates that the United States further improved its comparative advantage in agricultural production over the last 12 to 15 years.

Competitiveness, on the other hand, is determined not only by comparative advantage, our natural or underlying comparative advantage, but also by Government policies relating to farm programs and trade, and by a host of other factors. A country can put on an export subsidy or we could have changes in exchange rates, and all of these could turn the country that might be an exporter into an importer, or vice versa. Movements in exchange rates can affect foreign purchase prices. That affects exports of a relatively efficient or inefficient country.

Thus, comparative advantage and competitiveness are not always the same because of distortions in markets. The appreciation of the U.S. dollar since 1980, for example, has affected the competitiveness of U.S. agriculture in several ways. First, a stronger dollar vis-a-vis the currencies of importing nations has increased the prices of U.S. commodities and the importers' currencies. This was particularly true in the case of U.S. soybean sales to Europe, for example, where the real cost to the importers rose 35 percent because of the dollar.

However, in the case of wheat exports, if we look at the 25 or so countries that make up our wheat market, the appreciation of the dollar has been less dramatic to importers in those countries because of inflation in those countries. So when you deflate by their inflation, we see that that inflation has more than offset changes in the exchange rate. Consequently, the real import prices to buyers of our wheat have actually fallen by about 17 percent since 1979. Of course the real import prices would have been even lower had we not had the appreciation in the value of the dollar.

The point here is that the dollar's impact on U.S. exports varies by commodities, by country, and by circumstances in different regions and markets of the world. But the strength of the dollar is not our only problem. It may not be our major problem. The price of our grain to importers is the net effect of the exchange rates and the U.S. export price, and that U.S. export price in recent years has been above that of our competitors because of our price support programs. Our current inflexible farm programs make it impossible for U.S. prices to adjust to world market conditions, and we have become less and less competitive every year. Dick Smith's graphics I think will show that dramatically.

The U.S. price support programs set a floor under domestic and world prices for wheat and coarse grains. When prices fall to the U.S. loan rate, we withdraw sufficient quantities from the export market to support world prices at our loan rate. The United States absorbs excess stocks by taking this grain under loan; then, when these stocks become excessive, we get a lot of pressure to cut back on production, and thus we have acreage reduction programs for U.S. farmers.

So the United States, then, reduces world market price risks to other exporters and we bear the burden of stock and production adjustments. All at no cost to producers and taxpayers in other countries. But at present, the markets are weak and productive capacity outside the United States is quite large, such that competitive suppliers have driven effective world prices well below U.S. loan rates, and that makes the United States uncompetitive.

In effect, U.S. loan programs operate like an export tax, and a fairly hefty tax at that. Since 1979 loan prices have increased 32 percent for wheat, 21 percent for corn, 10 percent for cotton. These support price increases, or export taxes if you will, have provided a protective price umbrella under which our competitors have expanded production and market share. The appreciation in the value of the U.S. dollar has simply exacerbated that situation and enlarged the margin of protection under that umbrella.

I think I can sum up the issue, Mr. Chairman, of U.S. competitiveness in a few words. We have a basic comparative advantage in the production and exporting of agricultural products. Total world agricultural trade and our competitiveness have been reduced by global economic problems and by the policies of exporters and importers that interfere with natural trade flows.

But the most important source of our export problems, especially the loss of our market share, has been the export tax effect of our commodity loan programs exacerbated by the high value of the dollar. We can adjust these problems by dealing with the deficit, which is an important contributor to the high value of the dollar, and by removing the barriers to competitiveness imposed by our own farm programs.

We believe, and I think this is common among economists and others who are looking at the situation in the United States, we believe the handwriting on the wall is unmistakeable. We must find a way to restructure our domestic programs to regain our competitive position or be prepared for continuing year-after-year shrinkage of our agricultural production plant. And we must be prepared for the adjustments that have to go with that shrinkage: declining employment in agricultural supply and marketing industries, capital withdrawal from the farm sector, further declines in asset values, and further declines in agriculture-based rural communities.

Mr. Chairman, those are the summary points I wish to make. I would like, if you will, to turn the chair over to Dick Smith, who has some graphics he would like to present.

[The prepared statement of Mr. Lee appears at the conclusion of the hearing.]

Mr. **Bedell**. Thank you very much, Dr. Lee.

Mr. Smith, we would be glad to hear from you.

STATEMENT OF RICHARD A. SMITH, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. **Smith**. Thank you, Mr. Chairman.

We have put together some charts that we hope will reinforce some of the points that Dr. Lee has made. The first one I think we all are very familiar with, but I think it is always good to remind us of what has happened to our exports in the last 5 years.

We have seen a continued decline in volume. I think that is the most appropriate measure we should have of how we are doing. And we have had 5 consecutive years of decline. And what is really bothering us is when you look at our market share across the board of our main export commodities—wheat, feed grains, rice, cotton and soybeans—you can see in all cases we have had a decline, in some cases a rather sharp decline, in our share of the world markets.

The question is why is that happening? I think there are many factors involved, as Dr. Lee has indicated, but we have tried in some visuals here to try to pinpoint some of these. The first chart involves wheat prices in the world market and what has happened since 1976 through a projection of the 1984–85 year. What we are trying to show here is that during the years from 1976–77 through

1979-80 we were able to respond pretty well to the market and stay with our competitors. This little bulge up here in 1980-81 was when the embargo—the premium that many of our competitors got in the Soviet market caused their price to increase.

Since that time we have seen the world price declining. This has been due mainly to the demand factors in the world. Many of the countries that we export to have had economic problems, and the total demand level has decreased. During that time we have seen that our price in relation to our competitors has stayed above it. This is for all competitors.

Now, when you take the EEC and Argentina and superimpose that, you can see how much the gap has widened during that period. Now, during this initial period here until we get down to the loan rates, a lot of that is due to the dollar. Clearly the dollar made Argentine wheat, Canadian wheat more competitive. Simply because as the dollar strengthened it gave them an advantage.

What bothers us is when it hit our loan rate you can see that our price tends to flatten out because our loan rate becomes a cushion. You can see the gap gets wider. And that is what really concerns us, is the gap continues to get wide and as the gap gets wide we see our world market share continuing to erode. And this year we are seeing a marked erosion of our market share.

You can take another commodity, which is rice, and you can see how dramatic that has been. The same thing when our prices hit the loan rate, you can see what happened to the world price and you can see how that gap continues to widen. You can see what happened to our competitors' exports, and what has happened to our own exports.

The next one is corn. We are seeing the same trend. Again, what bothers us is we are starting to see this gap widening. What we are seeing here is a lot more feed wheat, more barley from the EC competing with us in world markets. Our share going down as this situation continues to get wider and wider.

Mr. Bedell. Excuse me. Are those real dollars, or are those inflated dollars?

Mr. Smith. These are in U.S. dollars.

Mr. Bedell. No, no.

Mr. Smith. It is traded on the world market based on dollar price. And this is what our prices are on the world market, and these are what our competitors' prices are.

Mr. Bedell. That is not my question. Is it converted to 1982 dollars, or is it——

Mr. Smith. No. These are market prices.

Mr. Bedell. So really the price drop is much greater than what it shows on your charts because of inflation. Is that correct?

Mr. Smith. That is correct. Also, I might add that what the dollar has done is in some of these cases if you convert the price that, say, the Argentine farmer was getting into their currency, even though the price in dollars has been going down, the price to the farmer has increased, which means you have an added incentive for them to continue producing.

I just want to point out that I think we are headed for the same position in cotton. The projection is that we may hit the loan rate, and we are going to start seeing that gap occur.

The principal point that we are making is that with this gap widening there is no way in the world that we are going to be able to continue to export, let alone increase our exports. We are going to continue to lose market share. Somehow we have got to get those prices competitive.

Some argue that we ought to wait for the dollar. The kind of adjustment that would be required if you waited just for the dollar to change, you are talking in the neighborhood of 40 to 50 percent. That is just not going to occur. So, somehow we have to find the flexibility that is going to allow these prices to come together.

We believe very strongly that if you do that, two things will occur. First, you will see our competitors stop expanding, and that is going to be very important. Because they are continuing to expand at a very rapid rate. Second, you will see demand pick up in the world for all of these commodities. We believe a combination of those two things over time will get your supply and demand back into balance, which will strengthen prices; at the same time, we will recapture our share of the world market and see our exports expand, and that is really the only long term solution to this problem.

Thank you.

Mr. **Bedell**. Does that conclude your testimony?

Mr. **Smith**. Yes, sir.

Mr. **Bedell**. Before we proceed, I am a little bit concerned as to whether our testimony is going in the direction that at least the chairman hoped we would address. The purpose of these hearings as far as I was concerned was not to point out that we are losing world markets. I think we all knew we were losing markets. I think it was not to argue that the loan rate might indeed serve as an umbrella to keep world prices higher and encourage foreign production.

The real purpose that I wanted to dig into in these hearings was to find out what the comparative costs were in various countries, what those subsidies were, what type of competition we truly face. At least recently, when I was in Argentina, I was told by our people in Argentina that the farmers in Argentina were getting $1.50 per bushel for wheat and $3 per bushel for soybeans. Those farmers were not getting rich at those prices—and they were complaining, but they were surviving. The impression I had was that the reason they were surviving was because they had little or no debt since the economy had been such that they hadn't been able to borrow much money and the land was owned in the family, and therefore they had hardly any debt.

The thing that I think is important for us as we look at a farm bill is to understand how the total cost of production compare by our farmers as compared to those farmers in Argentina, Brazil, Thailand, Canada, Australia, or Europe, or wherever it may be; what subsidies there are from those other countries, so that we can assess better the problem.

It is real simple to say all we do is lower the loan rate, lower the price to our farmers, and therefore be competitive and sell more. If I were sitting at a desk in Washington, that may well be what I would say. If I were sitting on a tractor out on a farm, I would think a little bit before I said, "Well, all we need to do is lower the price another 20 percent," when we are already losing our shirt in order to get our business back.

So the concern I have before we start our questioning is whether we are really going in the direction that I hoped we would. And I see in your testimony, Dr. Lee, you have got something on variable cost. Unless I missed something in it, it doesn't include either the subsidies or the interest costs and fixed costs as they apply to those other countries. Is that correct?

Mr. **Lee**. Mr. Chairman, we put together the best data that we had. And the problem is that these data are very hard to come by. We regularly collect the data that are available among our export competitors, as well as importers, and the difficulty is that not only are these data infrequently made available, but they don't have systematic ways of collecting data within their country that are comparable to ours, or even collect them at all in some cases. And so what we have is a scattering of data that are difficult to compare with cost data in the United States.

We have an effort underway in the Department now to try to improve our collection of that data, including the possibility of spending some time in those countries to try to do what we can to get those data comparable to that in the United States. It simply is the case right now that we don't have complete comparable data even on variable cost for national averages. And of course that is not particularly meaningful, just to have national average cost, because you have to know how many people produce below that and how many above it. So we are trying now to get a better fix on cost in other countries. That is not going to be an easy task, and then those are still focused on variable cost.

With respect to land and debt cost, there are even less of those—fewer of those data available. We have done enough inquiring in those countries to know—from the attachés and from other research—that other countries by and large have not gone through the same kind of big run up in land values that we have had in the United States. The EC has had some of that for some of the same reasons that we have. Because their programs were attractive and led people to run up their land prices, bid up land prices. But by and large, the other major competing exporters have a lower land value and have less land debt than is common in the United States and the European Community.

Mr. **Bedell**. I apologize to the subcommittee for taking this time. But, Dr. Lee, you have staff in Argentina, you have staff in Brazil. I know because I have been there. I could find out in 3 or 4 days what those costs would be. If you can't find out in a year, then in my opinion there is something wrong with the Department. You have got some good people down there. Certainly I felt you did in Argentina. They gave us the figures riding in a taxicab. If they can do that, it seems to me that you should be able to get those figures for us.

My farmers care whether they are competing with somebody that can produce corn for $1.50 or whether they are competing with somebody who has a cost of $3 to produce corn. And I think it is critically important for me as a member of the committee to know that, and I would think the rest of the committee would as well. And I apologize to the subcommittee for taking so much time.

Mr. Roberts.

Mr. **Roberts**. I would only make the observation, Mr. Chairman, we don't have any taxis in my country to learn the cost of production.

But at any rate, thank you, gentlemen, for your testimony. I am going to follow up in regards to the relevance of the cost of production figures, if I might. On page 5 of your testimony, you are talking about cost of production, and I find with considerable amazement that the U.S. average cost of production for wheat is $1.56 but that really excludes taxes and fixed costs and land values, and so on and so forth. And you go over to page 6, and you say in that third paragraph, "The foregoing discussion alludes only to variable costs, and does not take into account what has happened to land markets and land prices." And at the bottom there you say, "The second point to make about land prices (and debt levels) is that they don't directly affect a country's competitive position unless the price supports are adjusted upwards . . ."

Well, they certainly affect the farmer. And it is the farmer's production cost that I am interested in rather than an esoteric kind of discussion that may make sense in a scholarly way from an economic standpoint. I don't mean to degrade what you are saying; it is absolutely true, but to the farmer it is not really relevant. If we can't really figure his cost of production vis-a-vis that farmer's cost of production, say, in regard to our competitors, why, where are we?

You have here in table 5, that the cost of production in 1982 for the Central Plains wheat producer is $1.25. That figure is not even relevant to my farmers. Where is it relevant? I mean, if you are following my line of questioning. I can appreciate where you are headed, but I wonder if it is really relevant to my wheat farmers. I just don't understand it.

Mr. **Lee**. These are the costs, Mr. Roberts, that a farmer has to cover in out-of-pocket costs to produce in a given year. If he is going to stay in business over time, obviously he has got to cover his overhead costs, his depreciation, his land payments. But for a country, that land will produce. That land will not lie idle in the United States or in Argentina as long as market prices are above those out-of-pocket expenses because someone will come in and produce as long as they can get something to pay back toward the land.

What will happen is that those other things—the land prices, the machinery costs—will tend to go up and down depending on how much is left above that variable cost. So, yes, an individual farmer, particularly one who is in debt, is trying to figure how he is going to get enough not only to cover his out-of-pocket expenses, but to make his debt payments and to provide for family living and that sort of thing. But those things tend to affect more the financial well-being of the farmer and do not really determine whether that land is going to be in production from one year to the next. Because as long—again, we can observe it in this country or any country around the world, as long as those returns are above those variable costs, somebody will go out there and produce on it.

Mr. **Roberts**. Well, then what you are saying is regardless of the fact, if we lose all of our farmers or, say, a great percentage of our farmers, the land still has the potential, and so for this Nation's standpoint that that potential is still there, somebody will farm the land.

Mr. **Lee**. That is correct, someone will farm it.

Mr. **Roberts**. In terms of the relevance, again, of the cost of production, I think the goal here is to try to protect as many farmers as we can who can make it to go on and be competitive. And it is like your graph up there in regards to the fact that the major crop in my district is not now competitive, and you do get competitive out here as those graphs will go on. And if you would go over here about two seats to my right and your left, to the gentleman with the brown suit and the glasses, why, eventually that graph is supposed to pick up with prices. I call that the Valley of Death. That is after 5 years: We don't have any farmers left but we got a lot of good potential land. So, our cost of production potential is fine, but we don't have any farmers left. I don't understand it.

Mr. **Bedell**. Would the gentleman yield?

Mr. **Roberts**. I would be happy to yield.

Mr. **Bedell**. Dr. Lee, if I understood what you said, you said that as long as the price exceeds the variable cost the land will be tilled and will be producing.

Mr. **Lee**. Yes, sir.

Mr. **Bedell**. If that is the case, and if today we indeed have a world surplus of agricultural products, is it not true then that the price is going to have to get down below the variable cost in order to reduce production? And are we, therefore, not talking about the prices we are talking about today, but instead talking about prices of wheat of $2.06 for Australia, and soybeans for $1.84 in Brazil or $1.73 in Argentina? Are we not talking about world prices that are unbelievably below the prices that we have today? Have you not just testified they are going to continue to produce and sell at those prices as long as they exceed their variable cost of production, which you say is the figures I have just given?

Mr. **Lee**. Mr. Chairman, there are two comments I would like to make on that. It is, first of all, the case that we are dealing with average cost here, and within a country not everyone produces at that same cost. So what happens as prices come down is that the high cost producers tend to go out, and your more efficient producers tend to stay in, or the most efficient regions stay in.

Mr. **Bedell**. But your variable costs would not vary greatly.

Mr. **Lee**. Oh, yes, it would.

Mr. **Bedell**. Your land cost and so on would, but your variable costs would be somewhat similar, would they not?

Mr. **Lee**. No, sir. There is a tremendous variation. The supply response in a country is really a function of that variable cost, and that does vary considerably across—more across individual farmers than it does across regions of the country. So if you look within a region, within one of these regions in the United States even, you find farmers who because of yields, because of practices, management capabilities, have a tremendous variation in what they can afford to produce for. So what happens is in all countries the more costly or less efficient producers tend to drop out and you get that total production down until you stabilize.

The other point is that probably agriculture the world over is going through an adjustment, a tough adjustment, similar to what the automobile industry and other industries have to go through when they try to become competitive in a world market. There are some tough adjustments to go through. The issue may be one of, though, facing up to those adjustments. That is a different question from protecting the well-being of farmers in that interim process. But as far as being competitive in agricultural production, if we don't go through that adjustment process, then we haven't established a basis for utilizing our capacity in the longer run.

Mr. **Bedell**. I thank the gentleman for yielding. Without objection, the gentleman will be given an additional 2 minutes.

Mr. **Roberts**. Thank you, Mr. Chairman.

I just am trying to make the point that the goal of our farm policy it seems to be, not only to become market clearing and also market competitive, but it is certainly relevant to that individual producer. And his production cost is certainly a far cry from the numbers that are listed here.

What part in these tables does the farmer cost of production board have in this regard? Four years ago, in the farm bill, we made that effort. Is that plugged in here?

Mr. **Lee**. Yes, Mr. Roberts, it is. We publish now annually a comprehensive set of cost of production data. The procedures for doing that and for estimating those, and the way those tables are broken out is a result of the deliberations of this cost of production advisory board. They have been extremely helpful. They are knowledgeable farmers on this. And what we show are the total costs. I have only given you the variable cost. We show the total costs including land charges, and that sort of thing, for the United States. We simply don't have those other numbers to compare across the borders from other countries.

[Letter of July 15, 1985, from Mr. Bedell to Mr. Lee, and the response thereto follow:]

Ag Research & Extension

July 15, 1985

Dr. John Lee, Jr.
Administrator
Economic Research Service
U.S. Department of Agriculture
Wasington, D.C. 20250

Dear Dr. Lee:

In your testimony before the Subcommittee on Department Operations, Research and Foreign Agriculture on April 16, 1985, you indicated that the Economic Research Service had a new project underway to collect data on the relative costs of production in other major agriculture producing and exporting countries and a breakdown of the domestic and export subsidies offered by those countries. (see enclosed)

I am writing to request more detailed information on the nature of this study, including an explanation of its scope and estimated completion date.

I appreciate your attention to this request and I look forward to your response.

Sincerely,

Berkley Bedell
Chairman

United States
Department of
Agriculture

Economic
Research
Service

Washington, D.C.
20250

AUG 2 1985

July 31, 1985

Honorable Berkeley Bedell
Chairman, Subcommittee on Department Operations,
  Research, and Foreign Agriculture
Committee on Agriculture
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

We are pleased to provide you information on our plans and work underway to collect data on the relative costs of production in other major agricultural producing and exporting countries and to inventory domestic and export subsidies offered by those countries.

We are developing a new project to evaluate the major factors affecting competitiveness of U.S. agricultural products in world markets. Costs of production and domestic and export subsidies are some of the important factors affecting U.S. competitiveness.

The [illegible] Competitiveness Project will examine the full range of factors including those related to agricultural supply and productivity; demand; production, marketing, consumption and trade policies; and macroeconomic variables. First priority will be given to studies of factors affecting exports of food grain, coarse grain and soybeans and soybean meal for the major trading countries. Tentatively, we plan to complete the first phase of the comprehensive Competitiveness Project in the fall of 1987. At that time we are hopeful that we can co-sponsor an International Symposium on Competitiveness to communicate the results of the project. In the meantime, we will complete separate studies on the several factors affecting competitiveness as well as an integrated evaluation of the impact of alternative farm, trade and general economic policies on the export supply response of the U.S. and its competitors.

Some of the work to be included under the Competitiveness Project is already underway. In cooperation with Cornell University, we are developing cost of production comparisons for grain — mainly wheat, barley and corn — between the five Western European countries and the U.S. A draft report is expected in April 1986. We have underway a study of the cost of production for the U.S., Canadian, and Argentine wheat producers to be completed in September 1986. Additionally, an inventory of domestic and export subsidies should be completed about April 1986.

As soon as we complete the development of the more detailed and ongoing Competitiveness Project, we will provide you with a copy of the plan of work which will include a schedule for collecting costs of production data for additional commodities and countries.

Sincerely,

John Lee

JOHN E. LEE, JR.
Administrator

Mr **Roberts**. Well, that is the nub of it, then. Then you have the total cost.

Mr. **Lee**. Yes.

Mr. **Roberts**. I would be interested in those for wheat as far as I am concerned, and I would appreciate the farmer input into that. That is the other yardstick that I am talking about. I think the bottom line here is that there are those of us who think we are going through an export crisis here because we are not really moving any grain other than AID shipments and the Public Law 480 shipments and the bilateral agreements on the minimum buys. And we are not really getting there from here. We are going to have a 700 million bushel surplus on hand, CCC owned, at the end of this year.

We are talking about some export initiatives. Mr. Evans has an idea in that respect on the value of the dollar. I have a marketing loan concept. Are you familiar with that concept at all?

Mr. **Lee**. I am familiar that you have it. I am not a scholar on it, sir, so I am not prepared to comment on it.

Mr. **Roberts**. Well, the goal of that concept and other concepts is to say, "OK, go ahead, let's be market competitive and let's put the loan wherever it is going to go." But you don't march a whole generation of farmers off the cliff to get there from here, and then that Valley of Death—I think I should call it, maybe, Death Valley days to get somebody's attention. But at any rate, the Valley of Death doesn't last for 5 years; it is about 2 crop-years.

Now, if we put that loan where it would be competitive, but if the farmer were paid that difference and it would still fit under some budget limitations, which is a very neat trick if we can do it, would you have any real objection to that? Isn't that what you are talking about in order to get us competitive?

Mr. **Smith**. Yes, that is exactly what we are saying. Obviously, as long as that gap exists between our competitors and our prices, we are not going to sell and it is going to get worse and worse. So somehow we have got to get competitive. There are only two ways that I know, or three ways, really. One, you can hope for a tremendous change in the dollar, which I don't think anybody expects. Most estimates you might see a 15-percent change in the next 3 years. You are talking about a 40- or 50-percent change to have an impact. The other one is you can try to subsidize your way out of it in a massive way. Or, third, you can try to get your prices competitive through adjusting loan rates and do what you are talking about, assist farmers in some other fashion, which I think is what most of the farm bills indicate; some adjustment period during your Death Valley days, as you indicate.

Nobody is saying that you can get from the point we are today to a point where you have supply and demand back in balance and our market share back intact without going through some adjustment. Any industry has to do that. You have to go through that adjustment period.

The question is how are we going to do it? And there are many ways to do it. On the subsidies side, I think the administration's position is pretty clear on that. I think there are some real problems if you think of subsidies as a permanent solution because it is going to be costly, for one thing; and second, I think over time you would have to set up a two-price system: one for our domestic consumers and one for the world market. I happen to believe that over time that would be a serious problem for us.

Now, during this interim period that you are talking about, until we get competitive, I think the Secretary has said on many occasions he is willing to listen to any proposals that people want to make on that which make sense in terms of budget and other trade policy considerations, and so forth. So I think what you are saying is absolutely correct. We have got to get from where we are today to where we are competitive again, getting our market share back and exporting.

I might add in the process of doing that and getting our prices competitive, you will see total demand pick up substantially in the world. So you have two factors: You have the supply side, but you also have the demand side that you have to look at. We happen to believe that you will pick up a substantial amount of demand. We will benefit most from that because we will stop our competitors from expanding and what increase develops over time we will get most of that. And that is the light at the end of the tunnel.

Mr. BEDELL. It's a pretty dark tunnel in the meantime.

Mr. SMITH. What is the alternative?

Mr. ROBERTS. When we get to the marketing loan markup, in my personal opinion, or whatever we do with this subcommittee, I will ask you to get on one of the mules of the 20 team, to get us through the Death Valley days, and maybe we can get there a little faster.

I have no more questions, Mr. Chairman.

Mr. BEDELL. Mr. Morrison.

Mr. MORRISON. Thank you, Mr. Chairman.

Dick, perhaps for you at the marketing service level, the thing that would be most interesting I think to all of us, and I guess there is really no way to tell, but Government policy obviously influences the gap between the U.S. price and the competitor price, and I think you have observed most accurately that when that bumps into our loan rate we no longer chase what the world competitive price is; and you are worried about that gap and I think that has to be the worry of the committee as well. The thing that would be most helpful to us and some farmers out there that are trying to decide whether, you know, to sell the ranch or not would be how far down can that competitor line go before they really are dipping into support mechanisms and ongoing subsidies. In other words, how long can they stand that particular price or, you know, if we have, as Dr. Lee's testimony indicates, a underlying comparative advantage, how long does it take us before that plays to our advantage in convincing them that they can't win this war and that, in fact, they shouldn't continue to produce at the level they are?

Mr. SMITH. We have done an analysis in the Department, and we believe you are looking at a range of a 3- to 5-year period where you are going to see grain prices come down, but it is very hard to know what that level would be. We also see prices recovering toward the end of the period. I don't think anybody can accurately predict that. We believe that during this adjustment period, because of our comparative advantage, our competitors will stop expanding production. What is causing them to expand right now is they see a free shot at our share of the world market. They know we can't respond to those prices, so there is a tremendous incentive, which the dollar is making even worse. Because when you convert our loan rates and the prices that they are getting in the world market into their own currencies, they are doing fairly well.

So what you have to do is somehow stop that incentive. As long as that incentive is there, they are going to continue expanding their acreage. The only way that you can stop that from happening is to remove their incentive. Now, in the case of the European Community, it is a different problem. There the strong dollar has made it easy for them to continue subsidizing, because the strong dollar has reduced the amount of export restitutions that they pay.

If you really truly go to a competitive price, they will have a whole set of different assumptions they will have to work with in relation to their budget. And I think what is going to change the European Community's policy is the cost. Right now we are giving them a free ride basically.

So, I think the only way that you can possibly get your competitors to start adjusting and not continually expanding, nobody is saying they are going to go out of business, you just have to stop them from expanding further and that is about all you can hope. If you stop their expansion and you pick up demand because of the more competitive prices; but also you have to assume that we are going to see more economic development in many of our markets, which I think is a fair assumption. Therefore, when demand does pick up, we will be in a position to get most of that demand. And I think history has shown that. If you look back at data over time, it shows that when prices—when we have been competitive, we have been able to pick up most of that additional demand. That is the only way you can get through this. Now, how low that price will go, I don't know. I don't think anyone knows the answer to that. And I think all of the farm bill provisions that I know of provide some kind of interim assistance to farmers during that period.

Mr. Morrison. Interim assistance, and that was my next question. I presume that some of the talk now that comes even from the lips of those of us on this side of the aisle, and that is farmers are best served if we, in fact, have a transition time and that we are slow in moving to this market-oriented approach. But what you are saying is that we have got to send a message rather emphatically very soon, which means we have to go to a program like Mr. Roberts' market loan concept or something that zaps them as far as price is concerned but still provides a mechanism of support for the farmer, to help him bridge the gap or make it through the valley, as we have been discussing this morning.

Mr. Smith. You have got to send the signal that we are going to be competitive. I think when you send that signal, you are going to see the competitors' reaction a lot different than it is right now, and clearly that is going to signal lower prices. And you are going to go through that adjustment period. As I say, I am not aware of any proposal that doesn't contemplate some type of assistance to farmers during that period, and there are many ways that that can be done.

Mr. **Morrison**. But the most important way to do it would be to make sure that it does not influence the U.S. price as it seeks its automatic balance with our competitors?

Mr. **Smith**. That is correct. In other words, our price has to meet the competitor's price if we are going to accomplish what we want to accomplish over the long term.

Mr. **Morrison**. Obviously, the high loan rate frustrates that competitive spirit?

Mr. **Smith**. That and the dollar, both. But what has happened is now the loan rates have become the major factor because we can't adjust to what is happening in the world market. And as our competitors produce more and more and more, we see the competition getting more and more intense, and we are just losing market share at a very rapid rate.

Mr. **Morrison**. Mr. Chairman, my time is out. I wonder if I could just ask Dr. Lee one question that he probably can't answer, but maybe they can work on.

Mr. **Bedell**. The chairman would not have the courage to limit your time.

Mr. **Morrison**. Dr. Lee, part of this total marketing picture has to be influenced by the tax structure that encourages more nonfarm income being invested in agriculture. And I have looked at some statistics that I find to be rather amazing. I wondered if your Service under your administration has looked at all into the influence on expanded production of our tax policy, in which we find billions of outside dollars now distorting the supply-demand ratio as well as production, whether you have looked at this at all or whether you have contemplated that sort of an evaluation?

Mr. **Lee**. Yes, Mr. Morrison, we have. And while it is virtually impossible to come up with a precise estimate of how many billions of dollars have been attracted into the sector because of tax benefits as opposed to the economics of production, you can't really get that because you have to go into every individual investor's transaction and say what really motivated him. But we have studied these in terms of how it works on individual farms for individual investors. We looked at all the tax laws. We have been doing that for several years, and have put out a number of publications that illustrate exactly what you say: that literally not only have billions of dollars been attracted into the farm sector, but they are being attracted in sometimes to make investments or to expand production that leads to overproduction and depressed prices, not driven by the economics of the situation, but driven by the tax incentives. That hurts the bona fide farm situation.

We do have a number of publications on that, and we hope to produce some more in the near future.

Mr. **Morrison**. Thank you. Mr. Chairman, thank you for the extra time.

Mr. **Bedell**. Thank you, Mr. Morrison.

Mr. Evans.

Mr. **Evans** of Iowa. Thank you, Mr. Chairman.

A quick question on the variable costs, and I suppose it is in the complete testimony but I haven't read it. Do you include real estate taxes in the variable costs or not?

Mr. **Lee**. That is a good question. I think, yes, the real estate taxes are. Those are an actual cash expense.

Mr. **Evans** of Iowa. Yes. OK. In that connection, I would like to say that the variable costs of production that Mr. Roberts alluded to there on page 11, as a grower of corn and soybeans, I would agree with him absolutely. I think they are very good and accurate numbers.

Further along that line, I notice a tendency there for those variable costs to decline, and I see the last year that you have is 1982. Are those variable costs continuing to come down? And if so, to what extent is that trend going to continue?

Mr. **Lee**. Since inflation was gotten under control starting in about 1981–82, expenses have not risen very rapidly and the year-to-year costs per acre have been relatively stable for the last 3 years. We have just released 1983 data. We will have 1984 data this summer. It has been collected and those data show that per acre costs have been relatively stable for the last 3 or 4 years. The per bushel costs jump around because of the yield differences. For example, in 1983, we had a drought, we had a low yield, and the cost per bushel would run up. All we do is take the per acre cost and divide by the number of bushels.

Mr. **Evans** of Iowa. So there is considerable doubt that one can say that this is a long-term trend that is going to continue to reduce those variable costs to any degree that is substantial enough to effectively address any major part of the problem that we face?

Mr. **Lee**. Well, one of the things that will happen when you get into a more market-oriented environment—and we are seeing some of that adjustment taking place now, it is just slow—is that the farmers will begin to more seriously look for the lowest cost of production methods including, perhaps, in some cases where there is irrigated farming, they may go back to dry land farming if that turns out to provide a lower cost per bushel.

I have heard a number of producers, prominent producers, in the past year say that they are rethinking their production practices, looking at the market prospects, and they are going to start producing some low cost wheat and some low cost corn. Another factor that is in there that will reduce those costs over time is if we can get the interest rate down. That is really hurting, not only on the annual cost of production, farmers have to borrow to cover their production costs and that interest rate has been probably the largest single source of increased cost in the last 5 years.

Mr. **Evans** of Iowa. But that is not in your variable costs as you list them in these tables.

Mr. **Lee**. The interest; yes. The interest on the debt used to pay for those variable costs is in there.

Mr. **Evans** of Iowa. But not interest on debt to land?

Mr. **Lee**. Not on the land, that is correct.

Mr. **Evans** of Iowa. OK. You bordered on something there relating to elasticity. To what extent is demand elastic at this point? Have you quantified that? It certainly would be helpful, even recognizing the limitations of any such numbers. You are probably in the best situation to give us such numbers. Do you have any such thing?

Mr. **Lee**. By elastic in this case, you mean——

Mr. **Evans** of Iowa. For the growth in consumption as a result of decreasing the world price by various mechanisms. To what extent is the demand for wheat worldwide going to increase as the world market price comes down due to our efforts or others?

Mr. **Lee**. Yes, that has been very intensively studied, and let me be careful because there is no one elasticity number that you would want to quote or use. Because it depends—I know this sounds like an escape answer, but you do have to say it depends on the circumstances.

But elasticity increases over time. If you send a market signal that you are going to be competitive and people really believe that and you behave to reinforce that belief, the elasticity does increase over time. In 1 year's time it may be relatively low, but over a 3- or 4-year period it gets up above—in an economist's term, it gets up above 1, which means that you start increasing revenue—you have enough expansion of sales to increase your total revenue. And that elasticity does get rather strong after a 3- or 4-year period. It keeps increasing over time.

Mr. **Evans** of Iowa. You don't have any numbers on that in your tables here, do you?

Mr. **Lee**. No, sir; not in my paper.

Mr. **Evans** of Iowa. I am sure you would be reluctant to put them on paper, but it would certainly be most helpful if you could I think. It would add something to the debate I believe if we had some estimates along that line.

Mr. **Lee**. There are some estimates that along with them we describe the conditions that make those estimates—that explain those estimates. I don't have them with me.

Mr. **Evans** of Iowa. I understand. But do you think you might be able to provide something like that?

Mr. **Lee**. Yes, sir.

[The information follows:]

Price Elasticities of Export Demand for Selected U.S. Agricultural Commodities

A large number of studies in the agricultural economics' literature have provided estimates of the elasticity of export demand for most of the primary U.S. agricultural commodities. Based upon a review of studies for U.S. exports of coarse grains, wheat, soybeans, rice and cotton there appears to be little consensus on the magnitude of the empirical estimates. The value of the parameter for each commodity varies over a wide range. The differences are attributed largely to the methodology used, the assumptions made, the level of aggregation, and the time period of estimation.

Table 1 provides a summary of the range of estimates of the short-run and long-run elasticities of demand for U.S. exports of grains, soybeans, rice and cotton based on a review of the research literature. Some agricultural economists suggest that the long-run import demand elasticities for agricultural products from the United States are even higher, in the -3.0 to -6.0 range.

Table 1--Summary of Export Demand Elasticities for Selected U.S. Agricultural Commodities

Commodity	Elasticity Range 1/	
	Short Run	Long Run
Coarse grain	-1.20 to -1.50	NA 2/
Corn	- .30 to - .50	- .60 to -1.35
Sorghum	-1.75 to -2.10	-2.20 to -2.50
Wheat	- .35 to - .85	- .75 to -1.50
Soybeans	- .60 to -1.00	-1.10 to -1.95
Soybean meal	- .50 to - .65	NA
Soybean oil	- .75 to -1.25	NA
Rice	- .50 to - .70	NA
Cotton	- .20 to - .60	-.65 to -1.20

1/ These ranges are based on estimates of studies reviewed.
2/ NA = not available.
Source: USDA and various university staff reports.

The agricultural economics profession has come to no consensus on the short, intermediate or long-term import demand elasticity faced by the United States. Conceptually and theoretically the profession can agree that the elasticity of demand in the international market is greater than the domestic demand elasticity in any given country. And the import demand elasticity faced by the United States is greater than the import demand elasticity in the international market generally. A second point of consensus is that the import demand elasticity faced by the United States (as with the other demand elasticities) becomes larger with time, i.e. the long-term elasticity is greater than the intermediate term elasticity which in turn is greater than the short-term elasticity. But there is no consensus on what elasticity value holds in the short term or how fast the elasticity builds toward the long term. Thus there is no consensus on when (or whether) the elasticity changes from less than one (inelastic) to greater than one (elastic).

The level of response of U.S. farm export volumes to a change in the world price is dependent on how foreign importers and foreign competitors respond on both the demand and the supply side to the same world price movement. That foreign response is deeply rooted in each country's farm and economic policies, which can dictate farm production and investment decisions, and commercial policies which set their orientation toward trade.

Mr. **Evans** of Iowa. On the same area, if we can apply the term "elasticity" to the production side, you got any numbers on where you think domestic production will go in terms of various target and support levels? Or, to proceed a little further on that, what does it take to keep new land from being brought into production, not only domestically, but around the world?

Mr. **Lee**. Well, we think that in the United States that there is some supply response in the United States that with somewhat lower prices there will be some dropout of land.

Mr. **Evans** of Iowa. And again it is delayed I am sure.

Mr. **Lee**. It is delayed. And it is slow because if a person is sitting out there on that land, they own it, they have got a debt to pay, they are going to keep producing on it as long as they can get a dime back above those variable costs. So it is slow. But over time what will happen is that as go out of business or pay off their debts, the new investors coming in will take a look and say can they cash flow at the expected prices? And so that is what determines that response.

Mr. **Roberts**. Would the gentleman yield?

Mr. **Evans** of Iowa. Yes.

Mr. **Roberts**. In a traditional wheat growing area, say, like in Kansas, it has been our experience that if you do that, if that price comes down, that the farmer doesn't say, "Well, I will go to, you know, some kind of crop alternative." He doesn't have that.

Mr. **Lee**. That is right.

Mr. **Roberts**. And that he doesn't say, "Well, you know, economically it is just not in the cards for me. I am going to move to Denver." He simply goes out in summer fallow country and it becomes a continuous crop country, and we get into cropping practices that are really not in the best interest of the soil or the farmer. And so he increases his production.

Now, maybe that is over the short term. But how does this fit into your theory?

Mr. **Lee**. No; that is correct. Sometimes in the short term, if you are stuck with a fixed payment on debts and this kind of thing, you have to meet, just like other countries sometimes now are doing some rather desperate things to meet their foreign debt payments, farmers do that in the short term, also. And in the wheat country, the supply response is about as slow probably as any part of the country because you have fewer nonfarm alternatives, you have fewer farm alternatives. So about all you can do is produce wheat or turn it back to grass.

Mr. **Roberts**. Well, it wasn't Mr. Stockman's very convoluted theory that they are doing it out of greed. It was a way back during those years that you stayed alive. If you farmed by the inflation sword at that particular time, you beat the program with yield and you went after it. And I am just wondering in terms of the long-term theory here if we are going to get production down in the next 2 or 3 years.

I am sorry, I have taken your time.

Mr. **Evans** of Iowa. If I may reclaim my time, and I am glad to yield to the gentleman from Kansas on that point. But I would just like to make the point that in my part of the world there is a reduction in production. A very definite reduction in production this year in response to lower prices that have occurred up to this point. Bankers are not willing to stick their necks out further and fund these fellows for increased production. Bankers are saying, "You can't put on as much fertilizer and do some of the things that would result in higher yields." I think you are beginning to see that.

I don't know anything about summer fallow country, and you may be completely right on what happens out there in the wheatlands.

If one were going to try to attempt to make some adjustments through export subsidies that accounted for the high rise in the value of the dollar, would one be better off to base those subsidies on the relative value of the dollar compared to the value of the currencies of our competitors, or the relative value of our dollar compared to the currencies of our customers?

Mr. **Smith**. I don't know if I am really prepared to answer that question. I think that the whole issue of export subsidies has to be looked at very carefully and within the context of the market situation.

Mr. **Evans** of Iowa. Well, again I am over my time. Could you give me some views on that at some point?

Mr. **Smith**. We would be glad to provide it for the record.

Mr. **Evans** of Iowa. And the whole business of export subsidies is another 5 minutes, and maybe I will get a crack at you on that in a few minutes.

Mr. **Bedell**. Mr. Combest.

Mr. **Combest**. Mr. Chairman, I have no questions. Thank you.

Mr. **Bedell**. Dr. Lee, if I understood you correctly in your answer to Mr. Evans, it was that the elasticity had a value of 1 at some point that economists understood. Is that something you can explain to us, so that common people would understand what an elasticity of 1 is?

Mr. **Lee**. Yes, sir. It is much difficult to get into the concept of elasticities, but basically what we are saying is that if you lower your price, you sell more. But do you sell enough more to offset the lower price? An elasticity under 1, for example 0.5 or something like that, really means that you may lower your price, but when you lower your price, of course, you are lowering it for all of the commodity sold. Let's say wheat. You are not just lowering it for the additional bushel, but you lower the price for all wheat you sell. And the question is, then, do you sell enough additional wheat to offset that lower price on all the other wheat that you have sold. The elasticity of 1 means that it is the break-even point. Elasticity has to be greater than 1 for you to, let's say, lower your price a nickel on all your wheat, but you sell enough more wheat that you get a greater total revenue.

Mr. **Bedell**. But that takes, you indicated, several years I believe.

Mr. **Lee**. Yes. On most commodities, farm commodities, the nature of demand is such that over time you get a response to a lower price. In the short run you get a response, too, but it is not enough to offset your lower price.

Mr. **Bedell**. How many years to get to 1? Do you know?

Mr. **Lee**. The reason, and this is not an attempt to avoid your question, but the reason is it is very difficult to say how many years it is. It all depends on how the people respond, and other countries will respond not very fast. In other words, other people won't get out of producing so that you gain their volume very fast if they think that you are really not going to stick with your lower price. If they think that you are going to come back, they will stay with their production. If they are convinced you are going to stick with your lower price and be a consistent low price supplier, they then will more quickly adjust their own production, and you will capture that market. So, elasticity depends a lot on what you think other countries are going to do in response to your own price change.

So, in any event, though, it probably takes, depending on the commodity and the circumstances, anywhere from 2 to 5 years until you get that break-even point.

Mr. **Bedell**. And I take it that the response in terms of decreased production is on somewhat of a similar timeframe. Is that accurate or not?

Mr. **Lee**. Yes. There are parts of the country, just like in other countries, that will stay in that production regardless. The adjustment in total supply will come quickest in those parts of the country where they are barely hanging on, where they are at the margin. They really are not very competitive. And it won't be in central Kansas on wheat.

Mr. **Bedell**. Yes. That is Mr. Evans and me, and so Mr. Roberts is going to keep growing more and more.

Mr. **Smith**, you kept talking about our competitive advantage. That was why we were trying to have this hearing, and why I am so disappointed in the direction of the testimony and what has happened. You have to understand the problem we face. The problem we face is, if we want to try to do so something to hold our export markets, then we have to determine what we have to do. And the chart you have up there that shows the wheat and shows where the Argentine and European Economic Community price is would indicate to me that if we were to lower our loan rate by 10 percent on wheat we would still be avove where the Argentine and Europe Economic Community price would be on wheat. And I question how much you help yourself competing in any market if all you have done is lowered your price so they are not as much below you as they were, but they are still below you.

So, that is why this hearing is so important, and why I am so disappointed in your testimony. We face a serious question as to what we need to do if we want to try to hold our world markets, and that was the purpose of this hearing.

Now, I have before me a letter here, addressed from the American Embassy in Buenos Aires, Argentina, to Mr. Dan McGuire, director of the Nebraska Wheat Board, in Nebraska, that has all those figures in it. It is dated July 13, 1984. It has land cost, seed, harvesting, chemical, interest on invested capital, amortization cost, marketing cost, total cost—it has all the costs, every one of them listed here. When I wrote the letter to Secretary Block asking you to testify, I said included among those factors are the cost of producing major export crops in countries such as Canada, Australia, Brazil, Argentina, Thailand, the members of the European Common Market, and the domestic and export subsidies offered by those countries. In addition, it would be helpful if you could provide information on the relative debt levels, especially real estate debt of farmers in those countries, so that we are better able to assess a fixed versus variable cost concerning farmers in each country.

I don't want to be difficult, but we have a very, very, very important decision to make here in our committee that is very, very, very, very important to both our country and our farmers. And if we are going to try to do something to stop the loss that we are having in exports, then we need to know better what the problem is. And if it is available to a person on the Nebraska Wheat Board, it seems to me it ought to be available to you, Dr. Lee. And this would indicate, indeed, that their total costs are significantly below ours.

But if we take your testimony and believe that by and large it is going to be variable costs that determine whether they continue to produce or not, then we are not talking about a line like the one you have on the chart, we are talking about one a heck of a lot lower than that.

This affects how much the program would cost if we tried to have a target price and loan rates at market-clearing levels. I hope you can understand the frustration we have.

Mr. LEE. Yes, sir.

Mr. BEDELL. We may have to ask you to come back, I think, or at least furnish us the information in writing or something, so that we understand better what the problem is. I am, personally, extremely disappointed. I don't think we are getting to what I think we need to know as we try to write a farm bill here very quickly, and you people are the ones we have to turn to, I think—I would hope, I would expect—in order to get that information.

Does anybody else want to take more time here? Mr. Roberts, did you want more time?

Mr. ROBERTS. Yes; I would like to follow up on Mr. Evans' first line of questioning. I will make it brief, and I will yield to him or he can seek his own time.

First I would like to ask if you would like to have a response to the chairman's comment?

Mr. LEE. Well, we have similar observations. We occasionally get something like that where someone can visit a country and can go into a section of the country, go into a certain region of the country, and obtain data. What we don't have, though, are systematic collections of those data across those countries, so we can make detailed comparisons across them.

We have been focusing very heavily in the last 2 years on some trade policy issues and that sort of thing, and have not devoted a large amount of resources, quite frankly, to collection of those data. We now have a new project underway related to this competitiveness issue in which we will attempt to attain those data, those kinds of data, as well as the subsidy data, as well as we can.

We have a fair amount of data, but we don't have it in a way that we can layout that kind of detail for the whole country and do it across all those countries. I, too, am disappointed that I don't have that kind of data. But we will do what we can to supply you with what we have.

Mr. Roberts. Do you have a timeframe on that new project there?

Mr. Lee. No, sir, we don't. We are getting it organized now, and it is going to take some time to collect——

Mr. Roberts. Do you need more funds to do it?

Mr. Lee. No; we just need to concentrate our efforts on that subject.

Mr. Roberts. I know the key word around Washington in regards to agriculture policy is macroeconomic variable, and the last word of that is change. And it is very difficult, certainly, for you to keep pace with all the changing world conditions that affect the farmers' price, so I do appreciate your efforts.

To follow up, in regards to Mr. Evans' comment, my concern again is that we are going to have CCC-owned grain at the end of this year that, it is estimated, will cost us somewhere in the neighborhood of 1.2 billion in regards to forfeiture and storage and interest. Now, that is a figure that I have heard. But if that is the case, why can't we go ahead at least to offset that cost with some sort of an export initiative? And the initiative that we are interested in is the one that has been proposed by my colleague from Iowa. You would simply use the value of the dollar either in regard to our competitors or our customers and go ahead and use the bonus commodity plan, or, if you want to call it that, an export PIK.

Now, there is a lot of concern that that is artificial. That it doesn't really effect any long-term change in terms of supply and demand. But if you would lower that loan down to 280, or whatever it was, with some sort of concept to help the farmer in addition to this kind of export initiative. You are not putting all your eggs in one basket. And it seems to me that gets back to the question of what other countries will do.

And I cannot imagine a stronger message to our competitors and our customers that we are in the business on a very serious basis, we are going to go back and get those market shares, and we are going to compete.

Now, with that as an add-on kind of thing, why can't we do both?

Mr. Smith. Well, I think you raise several issues. The response that you will get from competitors, and this is a judgment, if you do it through subsidies, as the answer to the problem, in other words, you don't bite the long-term answer, which is basically getting your prices competitive. I think you have to do that.

Mr. Roberts. Well, I am not talking about either/or. I am talking about both.

Mr. Smith. Because otherwise they will stick with you in terms of subsidies, I think, for several reasons. One, they will almost be forced to politically in their countries to match our subsidies. Second, there will be the underlying belief that probably we won't stick with it that long. And history has proven that for the reasons I have given before, that if it becomes a very costly item in the budget and you, in effect, are setting up a two-price system, the realities of keeping that as a permanent policy I think are very difficult. So, your competitors probably will not react the same way to using subsidies that they will if you take that fundamental approach and tell them we are going to compete in the world market based on price.

Now, what you are talking about is what do you do between the time you get your prices down, you get the reaction to the lower prices and you go through that period? Well, there are all kinds of things you can do. I think the issue you raise is which is more efficient? Do you take whatever money you have and spend it on export subsidies, or do you spend it on supporting farm income? I mean that is a very legitimate——

Mr. **Roberts**. OK. Pardon the interruption. But why can't we do both?

Mr. **Smith**. You can.

Mr. **Roberts**. If it is going to cost us $1.2 billion to assume ownership of this stuff that nobody wants and we are going back into the grain business, why can't we at least offset that cost, to move it out with an export initiative? And if, in fact, long-term those prices will increase to the point you get to a better supply/demand situation, then the export initiative won't be necessary. It is sort of a catch-22, but you can't—I will tell you where the cost is going to come. Sure it is going to go to the Federal Treasury, but the cost, or the sticking point, if you will, is on the back of the farmer, and we lose him.

I just don't understand why we can't do both, and make it an orderly process. And again, let us get there from here over a couple of crop years rather than drag the thing out over a 5-year period?

Mr. **Smith**. It is a policy decision. There is no reason you can't do both or all.

Mr. **Roberts**. I appreciate your support, and would yield to my good friend.

Mr. **Smith**. You know what I am saying.

Mr. **Roberts**. I know what you are saying.

Mr. **Bedell**. Mr. Morrison, did you have any questions?

Mr. **Morrison**. No.

Mr. **Bedell**. Mr. Evans.

Mr. **Evans** of Iowa. Thank you, Mr. Chairman. I know we have many other people to talk to, and I apologize for taking a little more time. But I want to reinforce Mr. Roberts' comments.

I think that we on this committee strongly support your proposal that we got to get that loan rate down. We got to compete in that manner. I think there isn't any argument about that principle. But the fact is that regardless of what we do in a new farm bill you are going to have one whale of a lot of grain by the end of this calendar year.

It is already out of the field, you know. We are growing a new crop for next year, and that we are committed to right now. What are you going to do with all that?

Now, I am sure that is a major policy decision. But you can't keep it in those bins forever. You have got to use it for some useful purpose. Certainly you can't feed it all out through Public Law 480; the quantities don't mesh at all. And I am not pressing you to make a statement today, but I think it is important that the administration come up with some options that would be reasonable for the disposal of that grain before we write a farm bill. I think it is an important element in that total equation. And the administration has been totally silent on that subject up to this point.

I understand it is a difficult thing. But we need some guidance on that. It just seems to some of us that since you already own that grain, or will, that one of the best uses for it right now is to move it into the world markets, some kind of an export subsidy, and get a quick message to our competitors. If that isn't in association with reducing your loan rate so that they see there is a long-term commitment, you can really get the message across fast to those people by moving that surplus into the world market. It seems to me that in terms of the surpluses you are going to have and the total amount that we move overseas now—it is about one bushel in five. And that would seem a manageable way to dispose of that surplus to us. And if that isn't so, we would like to hear from you.

Now, along that same line, I think that you must be very, very careful when you come back in with any proposals on what you are going to do with those surpluses moving into the world markets that the message selected is one that promotes our market development and our export sales, and is not just a political tool of this administration or of any government that happens to be in power. And I think there is very strong evidence that our subsidy programs in the last year or so have been very, very strongly oriented toward the political side of things rather than strictly the agricultural side. I think you can see this in where the allocations of blended credit go. I think you can see this in the allocations of where GSM-102 credits are granted.

I mean, you know, Colombia sprayed their poppies or whatever, and the next day they got $150 million of new guarantees. And there are numerous examples of this sort of thing.

Finally, I want to take another subject, and talk about loans and cost to the Government, and approaches to how one might handle this reduction of the effective loan rate. If I may use a completely hypothetical example of a commodity that has a loan rate of $3 and a 9-month loan, at the end of that 9-month period you probably have got 25 cents accumulated interest on that loan, or something thereabouts. For the farmer to redeem that $3 bushel, he has got to come up with $3.25. If at that point in time the market is only $3.24, he is going to dump it on you, and you are going to be the proud new owner of that bushel. If that occurs, you have lost 24 cents in interest. You have got that bushel, which you have to write off against the deficit at that point in time, according to my understanding of the way the bookkeeping is done. Third, the day you pick up that bushel you have got to make arrangements to store it for a year at something like 40 cents for the year, including the storage and in-and-out charges and things of this kind.

It seems to me that it is extremely false economy to insist on squeezing out that last cent of interest and in suffering the action on the deficit in picking up that storage charge. It seems to me that one could essentially effectively reduce the loan rate and save the Government money if you allowed redemptions at whatever the market value permitted, at any price above the loan rate minus a year's storage cost, or thereabouts. And that this is an effective way to lower the loan rate without actually lowering the number, and results in a cost savings to the Government.

This was proposed to some extent in the bill in 1981. I would certainly like some analysis of that approach and whether that is a false set of assumptions that I put in there or not. And I don't ask you necessarily to comment on it this morning.

Mr. ROBERTS. Would the gentleman yield?

Mr. EVANS of Iowa. I would be glad to.

Mr. ROBERTS. If memory serves me correct, it was the Findley amendment in the 1981 bill that gave discretion to the Secretary of Agriculture to reduce that loan by another 10 percent. If you did that on top of the 5 percent that is already projected, you have got it somewhere in wheat around—what?—280, which is the figure we are talking about. But the Findley amendment also said, if you did that, the farmer would receive a deficiency payment outside the payment limitation. And in effect, that payment would be justified on the basis we have an export crisis, the value of the dollar, et cetera, et cetera, and I am sure we could give you probably 10 good reasons why that would be the case.

But you have that kind of discretionary authority now. Obviously, if, in fact, it is in our best interest to lower the loan and be competitive, and all of the adjectives and adverbs that are used in that argument, why not go ahead and use that discretionary authority of 10 percent? And the answer was obvious. We didn't want to pay the farmer because it had budget exposure and we are trying to get some sort of a budget written in the Senate and in the House. But sooner or later it is going to come. You know, sooner or later we are going to make those moves. And why not do it now with some contingency plans?

I asked Secretary Amstutz that: Do we have those contingency plans now? Are you prepared to discuss them? And he said, "No, not at this time."

We better do it now, folks, because I am telling you next year the surplus is going to be bigger and the political situation is going to be hotter, and it is going to go from the back burner to the front burner. Let us do it now. Let's sell it, let's don't smell it.

Mr. BEDELL. Are there any further questions at all?

Well, we do appreciate very much your being here. It is at least my hope that you would try to get some information together that would be of more help to us as we try to address what we think is a very, very serious problem we are trying to look at.

I think, if I might expand a little upon Mr. Evans' proposal, is it not correct that if you followed his proposal, then the market price would not necessarily stay at the loan rate; it could well go below the loan rate, that 40 cents differential, and indeed make you more competitive in world markets. Isn't that your point, Mr. Evans?

Mr. EVANS of Iowa. And save some money.

Mr. BEDELL. Yes; it seems to me to be certainly worth looking at very seriously. So we thank you very much for your testimony.

Mr. LEE. Thank you, Mr. Chairman.

Mr. BEDELL. Our next witness is Dr. Ray Daniel, vice president and managing director, industry and agricultural services of Chase Econometrics.

STATEMENT OF RAY DANIEL, VICE PRESIDENT AND MANAGING DIRECTOR, INDUSTRY AND AGRICULTURAL SERVICES, CHASE ECONOMETRICS

Mr. **Daniel**. I hope I don't get as much grilling as those poor guys did. I think you will be nicer to me since I am only one guy; won't you?

Mr. **Bedell**. You haven't seen anything yet, Dr. Daniel.

Mr. **Daniel**. I tried to respond to your challenge, trying to look at the question of the comparative advantage of U.S. farmers in world markets. I think what I tried to do was address some of the issues you asked me to. I collected as much data as I could on production costs in Argentina, by wheat, corn, and soybeans, from the data you have and others, and transferred it into U.S. dollars on a total basis; looked at their marketing costs from the farm level to their ports; looked at their port costs, from theirs to Rotterdam, to give us an idea. Let's find a common spot in the world. They don't sell their wheat on their port, nor do we sell it on ours. So I think one of the issues we have to talk about when we are talking about comparative advantage in world markets is, OK, you and I are selling in Europe, how do we match up in Europe, not how do you match up in your country and how do I match up here.

So, I think I tried to take the idea of farm prices and farm production one step beyond and address that issue, then tried to look at some of the other factors that affected our comparative advantage over the last 3 or 4 years, and tried to address some of those in this study. I apologize for it being so thick, but some of the data I got in here I think will be a good reference for you. Some of the issues I wanted to address for you today is such questions as how competitive are U.S. farmers in the world market? And this here is where I could find data. The next one is basically what policies, what agricultural export policies can we use in this kind of environment to help the U.S. farmer? The next issue I wanted to address in there was this issue of price. What can we do with price?

You know I deal with about 85 agribusiness companies, and our company deals with over 300 corporations. I think one of the hardest lessons most companies learn very quickly is if you try to compete on price in the market, and not on quality or delivery or service or product or other things, you had better be darn sure you have the lowest price. Because I think we are learning it in a lot of industries right now, not just U.S. agriculture, but U.S. businesses are going abroad. I think there is more here underlying this whole data than when we just talk about agriculture. Why is automotive industries going abroad? Why is textiles going abroad? Why is electronics going abroad?

I think we have got an underlying problem that is bigger than agriculture, and I think we are just highlighting and saying, "Well, the U.S. farmer is at fault," or "U.S. agriculture is." I love these Monday morning quarterbacks that sit and say, "Look, you should have done something else." Right? I would like to take some of these—and I have to be honest, myself. I have been at fault, too. I would like to take some of them and put them out there on the farm, and say, "All right. Now, you got this high debt. Now, you have got this real problem out there. We are going to lower your prices 50 cents a bushel, now, you make a living." I think we would see a change. I am really frustrated when I look at some of the data.

I apologize that the pages aren't numbered. But I want to start with looking at the ideal price competition. And let's turn to table 3, which has the Argentina production costs of corn, wheat, and soybeans, and then I want to compare that with table 4, which has the U.S. costs of corn, wheat, and soybeans. Then I want to follow that on through with some data from Canada, which, since they are only a major competitor in wheat, look at the United States-Canadian wheat production costs. Then I will talk about some of the other costs that are involved, as we go through tables 6 and 7, of getting the product to market.

If we look at table 3, one thing comes very clear. That if you compare the—I apologize. Where it says "Total Costs," if you will subtract out marketing costs on that, you will get the farm costs, including land as the attaché has reported in Argentina. In other words, the cost at the farm level for corn would be $1.56, the cost of wheat would be $1.87, and the cost for soybeans would be $3.22, at the farm.

However, if you stop there, you would realize that that would be not where he could sell it. And so the first thing you add to that is the marketing cost, and you can see, again——

Mr. **Bedell**. Excuse me. I have lost you. What table are you on?

Mr. **Daniel**. Table 3, please.

Mr. **Bedell**. I don't see those figures on my table 3. Would you repeat what you just said, Dr. Daniel?

Mr. **Daniel**. You have got the table that says "Corn," "Wheat," and "Soybeans" across the top; right?

Mr. **Bedell**. Correct.

Mr. **Daniel**. OK. If you go down to where it says "Total Costs," just above the word "Yield"—do you see that?

Mr. **Bedell**. Yes.

Mr. **Daniel**. Now, I put marketing costs before I summarized that, so I apologize. So I have to subtract out marketing costs to get farm costs.

So, if I subtract that out, that is how I got those numbers. So, I apologize for summarizing that data a little quick there. I should have put marketing costs separate because it is not on the farm. So, if you just subtract out that line of marketing costs, you have got an on-the-farm production cost of $1.56 for corn, $1.87 for wheat, and $3.22 for soybeans.

Now, if you start looking at that and switch on the next page, that one does not have a marketing cost in it. So where it says "Total," in United States, our total cost of corn, land, all variable costs, is $2.84 for corn, $4.04 for wheat, and $7.29 for soybeans. Now, that is including a lot of detail, and we will go through this very carefully. Because it is very key to understanding why they are more efficient, why can they be so competitive all at once, from 1979 to 1985, when prior to 1972 through this time we dominated the world, we gained market share, and they weren't doing anything.

The key factor in all this issue is not what the cost is now, but why the change. Why do we change from U.S. agriculture exploding and dominating the world, and exporting 65 million acres in new land from 1972 to 1979, and all at once, in 1979 to 1984-85, we are losing our shirt? I think it is a very key question of time, and that is something I hope we all keep in mind.

First of all, to remind you of some of these costs, it is absolutely amazing, if you start studying it real closely, that chemicals and some of their fuel costs were so low. Look at that: 2 cents a bushel for chemicals on corn, 13 cents for fuel. Switch over to the United States, you are talking about 45 cents a bushel for chemicals; fuel, 16 cents; and if you were to put in some of the other costs, it would even be higher.

The question I think you will find, if you study the data very closely, is that Argentina subsidizes their input costs. In other words, they subsidize the fertilizer prices and other chemicals to the farmer. So, behind this is a subsidy that we don't use in the United States. We don't use a subsidy of inputs. What are they trying to do? They are trying to get them to use more productive inputs on their farms, and so therefore they are stimulating them to use them. Right? Now, this is why their costs are cheaper. So, sometimes we have a hidden subsidy behind these, and I can't quantify it. I was not able to go into that detail.

But some of the data here, if you just say on farm, you understand, you are not getting the whole team approach. And the team approach is Government helping the farmer by subsidizing his inputs, clearing land or other things, as well as his exports. The interesting aspect, though, if you stopped on the other side and said that his cost was $1.56, you miss his 48 cents for marketing and you also miss a couple others. One is his export tax. They are required to pay a 25 cents export tax. Very interesting. We try to subsidize, and they try to tax. Right? Maybe we ought to switch policies, since they are so much better than we are. Right?

Anyway, so they have got a 25 percent export tax. And then if you switch on over to page—if you switch on over to freight cost, which is back on table 7—if you go back, that is the last set of tables here—you will find that the ocean freight rate out of Argentina is 0.62, or 0.58 now—it has been going down with the surplus bottoms. The ocean freight rate out of Argentina for corn is around 60 cents. For the United States, it is only 27 to 28 cents; and Canada is 22 cents if you ship corn out of there. So, again we have another transportation advantage.

If you start summarizing all of this up and looking at it very closely, what it basically says is, in my personal opinion, that the final line of the difference between on the Rotterdam market with Argentina and the United States is the value of the U.S. dollar, which is kind of surprising.

So, what we are running into here is we are asking the U.S. farmer to pay a tax with the value of the U.S. dollar equivalent to being competitive in the world market. So what has happened since 1979 that has changed the dramatics? Well, let us look back at some of the charts, and you can see why it keeps getting wider and wider. Let us go back through this, and again I apologize. Go over until you see the first chart, figure 2, and you will see why their lines keep getting wider.

Can you find it? Keep going back, after the tables, the last, table 7; two pages after that you have got figure 2, "U.S. Wheat Price" at the top.

Now, here is how you get those lines wider and wider. By the way, I will ask you one interesting question while I am thinking about it. How come they didn't show soybeans up there? Did you ever ask them that? Our soybean loan rates are giving us no problems. Why? An interesting question when we get into this issue of competitiveness.

So, what is happening here is the U.S. farmer, at the top, is indeed trying to lower his price. Look at that. He is lowering the farm price, even in nominal dollars. If you look in real dollars—again I apologize for the lack of numbers. But if we go way back in the back, you will see in real dollars, in corn and wheat, he is back to the 1968–69 level. And if he is lowering his prices back to that level in real dollars and can't get any more market, I think we need to learn something about the word "elasticity" real quick, shouldn't we?

If he can't make a living, if he can't sell it, then these guys—and I am going to kid with you. But let us say I am in the business and I have got my salesman out there selling my product, right? The first thing he always tells me is the price is too high. Isn't it? I mean, that is the salesman's excuse every time I have been in the business: the price is too high.

Well, if we can't sell agricultural products at 1968–69 real dollar levels, I think we better ask how low do we have to go? Because we are in trouble. And these are the basic issues I think we need to confront. We keep always looking at things in nominal dollars, and that is what gets us in trouble. And if we look at the fact of the U.S. dollar, why are we seeing a widening range, we look at it in corn, on the next page, it is 72 cents a bushel we pay on corn, it is $2 a bushel on soybeans, and a $1 a bushel we pay tax on wheat—just because of the dollar.

Now, whose fault is that? Is it the U.S. farmers' fault that we raised the interest rates to 22 percent prime, when we let the U.S. dollar get to the highest record. In fact, if you look at it in real terms, we were sending the wrong signal. From 1972 through 1980, the actual dollar was declining—1978—and actually we were selling it cheaper. We were subsidizing it through the dollar. Now, not only have we quit subsidizing it, we are taxing it. Now, we know why we are losing market share.

The other thing that is happening to us in the world markets is barriers to trade have been there ever since I think two people traded, and one decided instead of being free market he would be something else. And I think this is something we forget as economists. I have to admit that I was in part of that discussion about 4 or 5 years ago, until somebody asked me: "All right, where would you sell it? Where would you sell U.S. agricultural products?" And I said: "Well, let's go to Europe; they got money. Right? Let's go and sell our agricultural products in Europe; that is where the money is. You know, they have got an economy recovery." So, when I went over the appendix in the back—and I apologize again. If you go to appendix A, in the back, you have got the EEC wheat policy. Turn back, it is nine pages in the back. It is a nice bar chart of why I can't sell in Europe, with price. It says "EEC Wheat Policy."

Basically, if I were to start on the left with that program, and I got the import price, well, the first thing happens to me is when I have a price offer in Europe to stimulate demand, they have a levy on that price to their threshold price. So, if I drop the price, guess what they do to the levy? Anybody want to guess? They increase the levy. So, guess what happens to the demand for my product in that country. What is the elasticity? Zero. The price didn't change. You see that?

Then they get real nice about it. Since they decided that they want to become self-sufficient, they did even better than that. They became the second largest exporter of wheat in the world. They just passed Canada, so they are coming after us. They have 112 bushels per acre on wheat. They have a subsidy of price equivalent to $6 a bushel they are giving their farmer. And the farmer is saying: "The heck with Yankees, I am going to take the market."

So what do they do? Well, on the other side is the world price again, and so they give them a refund. They give a subsidized price on the other, and they are subsidizing their exports.

I think we have got a serious problem with world trade. The United States has given too much. The United States has been believing in free trade for so long that I am afraid we are lost in the gobbledygook of the word. When you talk about resource allocation based on price, you are talking about a proper flow of information, proper flow in the marketplace, proper markets being open, and when they are not there is no value with price.

Now, which other countries? Well, you can just thumb through them. For being a little embarrassed, I recommend to you that next page, USDA, "Trade Restrictions in International Grain and Oilseed Markets, a Comparative County Analysis"—by detail, by the ERS. Why don't they tell you? I just listed wheat here by country. In that report you will see it on soybeans, you will see it on corn; every country listed, exporters, importers, of government restrictions, regulations, and controls, and subsidies. And we are the free market guy. Ninety-five percent of all grain bought and sold in world markets is by governments. Who are we kidding? With price?

Now, let us look at the other issues we addressed. Now, we are switching over to the concept of elasticity. I just finished a study for the Wheat Growers on elasticity. Because we knew 2 years ago that one of the major impacts and one of the major issues facing the Congress today would be how do we get rid of these surpluses? How long have these surpluses been around? Since 1977, when the tractors were here. So we have known about this since then. And premarket was supposed to do it.

Do you realize we have expanded wheat exports 170 percent this decade and we still got surpluses? We have got issues here. Can we do it? And I think we have to address the issues straight, head to head.

If you look on the page just before that graph on wheat prices, figure 2, go back to that one. And another problem we had: we decided to leave Europe and go to Russia, and sell in Russia. That was our growth market; 1972 we entered. Mr. Butz let us, and I remember the time. We were going to expand U.S. agriculture and get us out of the subsidies of the 1960's and the 1950's. And that figure 1 on that page shows the percent market share of U.S. agriculture prior to 1979.

Mr. **Gunderson**. You are on figure 1?

Mr. **Daniel**. Figure 1, yes. It is a bar graph like this one.

Here is another problem we have. We entered that market. We tried to keep our prices competitive. We tried to be the best supplier Russia had. And up until 1979, we had 70 percent of that market. And that is what that shows you, that bar chart, in 1976, 1977, and 1978.

We embargoed, though, and look what happened to our market share. Now, we have 30–40 percent, and praying that we can hold. They have guaranteed long-range commitments with Argentina. Argentina has signed them with them. Do you think a lower price is going to make Argentina back out of those contracts? Not on your life. So, now we have decided, so now I can't sell in Europe because they have got protectionist policies. I can't sell in Russia because they don't like me. I am the buyer of last resort because I can't rely on you, and who knows what you will do to me next year. So, I go everywhere else first, fill up everything I can, and then I will finally come to you; and if there is a surplus in the world, tough luck.

So, I have missed the centrally planned countries. It is the same thing we did to Poland, the same thing we have done to China with respect to textiles. Now, we have lost the centrally planned markets in this issue; and we tell the farmer keep going, keep waiting, we will bail you out.

The next issue we decided to go to was developing nations. Hey, let's feed the world—and we went to Latin America: Mexico being one big area we dumped a lot of grain into, and we sold a lot to Brazil; wheat especially, when these nations decided they would make one quick jump in industrial development and skip their agriculture. And that was a beginning of their importing a lot of grain, and it was cheap grain. In real terms it was very cheap grain. So, now what has happened is all those countries have extremely high debts, and extremely high interest rates to pay them back, and the IMF says to them very bluntly, you can't import into your country. They didn't say at any price. IMF doesn't say at this price; it says you can't import.

Now, how does it affect somebody trying to offer a price? Why does the IMF say: You have to get yourself straightened out, you have to get your exports expanding, and you have to reduce your imports. Well, guess what their biggest import is in the United States, outside of guns? Butter, right? Grain.

And guess what they also turned around and told them through the IMF. You have got to expand your agricultural base to expand your exports. Creating new competitors.

So, when I sit here and you ask me what is the competitive advantage of U.S. agriculture, I would summarize it very quickly: we have lost most of it. They have always had a lower price. If I studied this data, it has been low for a long time. But the major change occurred in 1979, because the U.S. dollar caused their prices and costs to be even lower. Their governments in a major effort have been subsidizing even their higher level. And therefore, the barriers to entry have reduced the price transition for them—the price transition of our prices, of real prices declining in the marketplace; and we have lost out in centrally planned countries because they do not consider us a reliable supplier because of political problems we have had; and finally, the developing nations where we had strong markets have now had extremely high debts and are no longer stimulated to buy our grain. That is the problem that U.S. agriculture has.

Let me state one other thing and then I will stop, Mr. Chairman. That is, that most of our studies show that even if you are dropping price to get a price—everybody here kept saying sell volume, sell volume. I would rather sell revenue, wouldn't you? I would rather sell dollars. If I could sell 1 bushel for $100 billion, I would do it. Wouldn't you? I would rather do that than sell 100 billion bushels for 50 cents, or zero.

So, I am saying that I think the whole issue is total revenue to U.S. farmers from the world market. And that demand is inelastic. John Lee's research—and I quote him and I am going to be tough on him. Dunsmore and his people underneath him and their simulations of all farm policies, and I can give you the references, have said the elasticities for demand for grain in the short and intermediate term—that is from 1 to 4 years—is 0.8. That is less than 1. In their analysis they said the elasticities were less than 1, and therefore any price decline reduces total revenue to U.S. farmers.

Now, who is going to make it up? It is always amazing to me when I switch to variable costs and talk about variable costs, well, if you look at some of the things they leave out of variable costs, his implications—I think an economist should always tell you in the long term all costs are variable. I am sure you remember that in economics.

What they are saying, and if you listen to them very carefully, they are saying 70,000 to 100,000 of your farmers are gone. So what? And that is their answer. Now, who is going to take it over? Well, off-farm ownership, banks, institutions are going to have this land. They are going to change the whole structure of your farmers.

Let me just tell you what is going to happen to your rural communities. You are going to lose dealerships, your fertilizer. You have already lost most of the farm equipment dealers. You have lost some 800 a year. So your rural communities are gone. Who is going to pay the tax base? The tax base collapses.

We are talking about a significant change in structure, change in ownership, and a whole change in what I consider the most efficient combination of resources ever put together in the world out there, and that is U.S. agriculture. And they are saying so be it.

Thank you.

[The prepared statement of Mr. Daniel appears at the conclusion of the hearing.]

Mr. Bedell. Thank you for all that good news, Dr. Daniel.

Mr. Morrison.

Mr. Morrison. Dr. Daniel, thank you for being very forthright. And I think your packet of information is indeed a gold mine for those of us who like to sit back and go through such things and reach our own conclusions.

I guess I would open the questioning by saying, what is your conclusion as far as steps that we proceed to take through the means that we have to make sure that we make some steps in the right direction, at least, as far as our farmer clientele is concerned? You have painted the black side of the picture. Is there a bright side?

Mr. DANIEL. Yes, I think there really is. I think sometimes we get carried away with the bad news and, as economists, we love to trend right on down. In fact, I think we were over to the third chair awhile ago, weren't we? I think that is one of the dilemmas we run into. When it is bad, it is bad, it is bad, it is bad. When it is good, it is good, it is good, it is good.

I think there is a bright side. I think the bright side is to stop and realize that, one, there will be some changes coming. As things have gone up, things will come down. In my personal opinion, we have a couple of years here of adjustment to go through. And I am not talking about the farmer going through the adjustment; I am talking about Congress in its farm programs, I am talking about the world agriculture situation, I am talking about world governments with respect to their farm programs, and U.S. farmers. And I think that we can do something by stabilizing the situation. Just saying, "Hold it fellows, let's cool it."

We just lost $212 billion in assets of the U.S. farmers out there; $212 billion out of $512—we have lost that much assets. The net worth of agriculture. That is gone. So, now his debts have grown. We need to stabilize. We have adjusted enough. The adjustments that are needed, that we may have had over expansion because of the inflation and so forth, have been wrung out. Let's stabilize. Let's say, "Hold it; this is enough." And stabilize the situation.

I think we can do that. I think it is much simpler than a lot of us would want. But it is going to cost somebody some money, and that is the dilemma. One, I think we have to say prices are going up in real dollars. Now, if you want to say, "I want to drive these other countries out of business, I want to be competitive"—fine. But you are just asking for retaliation. And the question is who has got the deepest pocket in a retaliation market? Every time I do that to my competitor, I guarantee he is going to turn around and drop his price lower than me.

Look at the cost. He is going to do it to you. So, how are you going to get anything? You have to ask yourself. Let's stabilize it. If we are the dominant market share, which we are, and we are the price leader, and we are the market leader, let's behave as a market leader; let's stabilize the situation.

Now, you can say: OK, we have got two options. The first option is let's stop the price decline. How do we do it? We can offer to put the loan rates at a certain level, and say: That is the U.S. Government, and we stabilize the whole world. Or we can stop the price decline at the farm, and that is the subsidy program. We can say all right to these competitors, if we really want to do that, I will fix my farmer price at the farm with a target price or whatever technique you would like to have, a subsidy, or whatever, and this price is what you are going to have to face until you change your embargoes and change your structure.

Then, that means the U.S. Government has got to have deep pockets. And have you got it? If you are willing here in Congress to give the U.S. farmer from $15 to $20 billion these coming 2 years per year, you have got enough money to do it. Good luck. I think that is the right approach. If you have $10 billion or less, and that is all you have—I am trying to look at it just like I tell a client when I offer my services:

How much money you got up there? And if you have only $10 billion or less, you have a serious problem because the farmer is going to have to draw up $10 billion in this type of structure.

So, who is going to take the $10 billion? And if you don't have more than $10 billion, then you have got a real dilemma. And, as you drop those prices, farmers will expand production and after 2 years you are going to have the same glut. We have got 94 million acres of potential wheat out there on top of the already 1.4 billion inventory we have got, and watch yourself get into bigger trouble.

So, what you have to do is some way stop the acreage expansion. Just drop the production expansion, so you can get these inventories lined out and you can get going. So, if you have only $10 billion, you have to reduce the inventories by adjusting supply in line with demand. That is how you solve it. And you stabilize the situation.

Mr. **Morrison**. OK. It isn't what I wanted to hear, but I heard it. Thank you.

Mr. **Daniel**. The problem on price is inventory. Look at it. Look at the data, it is in some of those charts. Inventory is determining your price. You keep those inventories high, the price stays low.

Now, you have got options. You could spend the money. If you have got the money, great. If you have got the money, go ahead.

Mr. **Morrison**. So, we are talking about supply management in some form.

Mr. **Daniel**. You have to. Your excess capacity is so large, you can bring another 600 or 800 million bushels in production in 1 year.

Mr. **Morrison**. What is to keep from the continued erosion of the market?

Mr. **Daniel**. If it is volume erosion, and you have got to sweat that sometimes and get price, get total revenue. Ask yourself: "What do I want from the world market? Total revenue or volume?" You are going to lose 50 cents every bushel you sell and make it up in volume, right? Good luck.

Mr. **Morrison**. OK.

Mr. **Daniel**. So, you back out on enough. You won't back out of all of it. I am not talking about coming off. What about 200 million bushels adjusted off of that world market? And you would see a significant increase in price.

Mr. **Morrison**. Thank you.

Mr. **Bedell**. Mr. Gunderson.

Mr. **Gunderson**. Thank you, Dr. Daniel, for very informative testimony. I have got a number of questions here. So, within our 5-minute time limit, I am going to ask if we can go through these fairly quickly.

First, would you please comment on the U.S. agricultural trade situation with Japan? How do you analyze it? How ought we to react with the present level of concern regarding Japan?

Mr. **Daniel**. In what way comment on it? You mean the fact that they jack up their prices, and we are not able to switch, you know, selling our wheat flour or soybean meal, or beef, or oranges, or anything we want to sell in agriculture——

Mr. **Gunderson**. Don't they abuse the concept of free market international trade more than anyone else?

Mr. **Daniel**. The Japanese are never going to let their security be produced in the United States, you understand? They are not like we are; we are trusting them with our industries and saying, "OK, go ahead." They are never going to trust us. And so, how are you going to change them? Well, if you don't change them, then the U.S. farmer bounces around at a mature market which doesn't do anything. The price goes up, the glut goes down, the Japanese raise the import tariff. You can't get anything there, unless you change the whole system.

Biggest abuser? No, look at that list. Everybody in the world is doing it. Japan is just one that we are mad at because they have more exports into us than we there, and we are trying to pick on it because it seems to be the only thing we can sell there.

Mr. **Gunderson**. Let us go on. I often make the statement that the one thing that we have that other countries don't, particularly Third World countries such as Argentina, is export credit. Is that a viable tool that we do use and should use or not?

Mr. **Daniel**. I like those tools. Let me ask you to remember one thing, though, as you switch to subsidies. And I never thought about it until the other day. If you switch to export credits or subsidies, you see you are already selling $40 billion or in that neighborhood of agricultural or cash market without any subsidies, close to it. Or not that much, but let's say you are selling $40 billion already. Right? If you and I start offering subsidies, guess whose exports we substitute for first. U.S. cash prices.

If I am sitting here as the U.S. Government offering cash prices over here in this hand, and subsidized exports over here in this hand, guess what every government is going to do in the world right now. Cancel all cash sales and buy on credit. There goes your whole billion or 5 billion you have got. You understand that problem?

I didn't think about that until the other day. And I tried to say, well, who are they going to drive out of business? They are going to drive our cash sales out of business. See there? I mean they can buy at the same port, the same deal, the guy just says, "Hey, I got credit or I got cash." I will take the credit, won't you?

Mr. **Gunderson**. But what if we would put restrictions on who is eligible for the credit?

Mr. **Daniel**. All right. So, all the guys who have now cash credits are going to cancel and they will become eligible in 4 months. It is fine. What restrictions you are going to put on? Who is eligible? Who is not? Are Communist countries eligible? You have got a nice administrative nightmare. Good luck. And fine, you can administer it. But your friends, your best friends, you are going to force them to pay cash and your enemies pay credit?

Mr. Gunderson. OK. What happens, in your opinion, if we move in the direction the administration has proposed with lowering both our loan rates and our target prices? Do you foresee at the end of that effort, by 1989-90, that we will have gained a larger percentage of the world export market?

Mr. Daniel. No.

Mr. Gunderson. I am not talking dollar volume. I am talking percentage now.

Mr. Daniel. No. We will have less market, in my opinion, because U.S. farmers will go broke. And I don't believe, when you go down to those prices, I don't believe you are going to be able to hold the production sales we are having. We may dump it, and then we still got a surplus problem. Most studies I have seen show that at the end of that period you still have mass acreage and mass problems. So, you are going to gain market share by giving it away? Maybe. But the rest of the countries are going to meet your prices.

Who is going to give you the market back? The population of the world, fellows, now is slowing below 2 percent growth. You know what that means? The productivity of the world in agriculture is growing above, about 2.6. The odds are over the next 5 years we are going to have more surpluses and shortages because the population growth now is growing less than the production.

And another thing is I bet we have another recession between now and then. Don't you? You want to say it is going to be perfect economic growth between now and then? Another downturn and a recession, guess what happens.

Mr. Gunderson. I tell my constituents there is not going to be any recession.

Mr. Daniel. Oh, good. Did they make you sign that in blood this time?

Mr. Gunderson. No.

One final question. I am generally a supporter of the supply management concept for most of our programs. But what really would be the impact of that on our international trade? If you enact supply management for the wheat and feed grains programs and we get our domestic price up there, does that not mean that we are going to lower our volume of international exports?

Mr. Daniel. Yes. But how much? I just said, 1 percent change in price lowers your volume 0.6 or 0.8 percent. But your total revenue goes up. So, every 1 percent you increase, in real dollars now, you lower your volume 0.7 to 0.8 percent. Yes, I admit that.

Mr. Gunderson. My time is up. Thank you very much.

Mr. Daniel. Did I answer your question?

Mr. Gunderson. Yes. Thank you.

Mr. Bedell. Thank you. Mr. Evans.

Mr. Evans of Iowa. Thank you, Dr. Daniel, for a very interesting paper that I am sure will be of great interest to us as we go through this process of writing a farm bill. There is an exceedingly large amount of good data in there that we haven't had available to us before, and I assure you we will put it to good use.

I don't think anybody on this committee thinks that there is any simple solution to the problem, and what we are going to come up with certainly is going to be a mix of elements in a farm bill, not all of which will be perfect by a long way. But I would like to talk just a little bit about keeping production in line and the measures that you think might be highly desirable. There is a strong inclination, I think, among the members of the committee, not in the administration necessarily, but among members of this committee, to try to get a lot of the inefficient land out of production for a long period of time; to combine that with conservation, which is a good approach for a variety of reasons.

What do you think of that as a basic strategy, one element in the many things we do, not one of the things necessarily that we completely depend on. I think, as I said before, there isn't any magic solution. But a long-term land retirement program that focuses on some of the less efficient land, some of the more highly erodible lands, some of the land that tends to pollute aquifers in this country, things of this kind, on a bid basis, not letting it concentrate too much in any one part of the country, it seems to me that on a dollar-per-acre basis, or a dollar-per-bushel basis I guess we should say, that that has some merit.

I asked the Department not very long ago to give me some estimates of what it has cost us recently to retire an acre of land, with hindsight as opposed to what we predicted. I think it is over $400 an acre a year to get that land out of production.

Mr. **Daniel**. Everything is bad now and we are not going to need this agricultural plant in North America in the future, I think is wrong. I think that it is very good quality land. I think we do have—after we get some things straightened out, and that's the value of the dollar and other things—I think we will need this agricultural base in North America. And to just see it erode on low prices and cheap grain, and subsidized agriculture and continue to let it wash away and then not have it, reminds me of my heritage in the southeast, where we did that to cotton. If you remember, we did that to the cotton industry when it first started, and we are still trying to recover some of that land that washed away. And we are now doing it with soybeans, and we are now doing it with double cropping, and we are trying to keep up that way.

I think it's an excellent idea to say we need that for the future, we need a long-term program where they can't jump back in next year. Our biggest problem with our program is not that supply management doesn't work, because it's 1 year. It has been a voluntary program since 1933 and it has been a 1-year program since 1933. It is an excellent idea, and we ought to do something about getting it out and holding it out.

Mr. **Evans** of Iowa. If I may go on to another subject—and thank you very much. I am glad to see that at least on one count we completely agree.

What would you do with all of the surpluses that are accumulating today? I mean they are either already in the bin and just have not yet been forfeited to Uncle Sam, or are going to be in the ground, or are already in the ground, for production in 1985? Sam is going to end up being the proud owner of an awfully lot of bushels. Ultimately, something has to be done with those.

From your perspective, what would you do with those bushels, and how would you handle that problem?

Mr. **DANIEL**. That's a good question. I think, first, I would be sure I didn't expand any more production, so we start there. Now, let's get rid of the inventory, right?

Mr. **EVANS** of Iowa. Yes.

Mr. **DANIEL**. The first thing I would do is be sure I didn't hurt my cash markets.

Mr. **EVANS** of Iowa. Yes.

Mr. **DANIEL**. So what do I do? There's Ethiopia, I would give a Public Law 480 program which is a giveaway program, especially in a country where it does not transfer over into a cash market. And we can pocket those, we can identify them, and that's where I think with the—I think it fits into our ethics, I think it fits into our Nation. I think our taxpayers would agree to that, that we need to feed those people, we need to do that. And I think that kind of program can be targeted to specific countries, to specific areas, and we can move that inventory in that direction.

Mr. **EVANS** of Iowa. The point of great importance there is that you don't displace your cash market in terms of what you are talking about.

Mr. **DANIEL**. That's right.

Mr. **EVANS** of Iowa. Now, I think there are limits to how far you can go in that regard.

Mr. **DANIEL**. Absolutely.

Mr. **EVANS** of Iowa. In my judgment, the demand that is productive in using supplies in that manner is in order of magnitude smaller than the supplies that Uncle Sam is going to owe, probably.

Mr. **DANIEL**. In a short term, it will. There was a study done by the National Wheat Growers, and I hate to talk about other competitors, but they show the study that if we were to pick the countries to a Public Law 480 type program, and we were to freeze the acreage, we could get out of this in 3, 4, or 5 years. You can't get rid of it in 1 year.

Mr. **EVANS** of Iowa. You also understand there have been some studies that show for every dollar's worth of grain, that Uncle Sam gives away—it costs somebody from $2 to $3 to deliver that dollar grain into the hands of somebody in Ethiopia that can use it.

Mr. **DANIEL**. Do you know that?

Mr. **EVANS** of Iowa. You take that into account when you are——

Mr. **DANIEL**. You have to change one of the laws, don't you?

Mr. **EVANS** of Iowa. You have to change at least one.

Mr. **DANIEL**. You have to change that one on U.S. bottom ships getting that——

Mr. **EVANS** of Iowa. Yes.

Mr. **DANIEL**. To save you $1 or $1.50 a bushel. And if you don't change that, then you know who is getting the biggest subsidy.

Mr. **BEDELL**. Thank you, Mr. Evans.

Mr. Combest.

Mr. **COMBEST**. Thank you, Mr. Chairman.

Dr. Daniel, I, as well, would like to commend you on your statement. Certainly, you have provided us with some awfully helpful information, and I appreciate that.

On your figure 1, if you would turn to that, on the U.S.S.R. imports of wheat and coarse grain.

Mr. DANIEL. Yes.

Mr. COMBEST. I have two questions. Do you have the corresponding totals? You show the total of 100 percent amount of grain imported into the U.S.S.R. over that period of years. Do you have the totals?

Mr. DANIEL. I certainly do, and I usually have it with that graph.

Mr. COMBEST. Go with those?

Mr. DANIEL. I would be happy to provide that to you.

Mr. COMBEST. OK, I would appreciate that.

Mr. DANIEL. If you want to know generally—back in 1977, 1978, it was around 22 billion.

Mr. COMBEST. Twenty-two billion total?

Mr. DANIEL. Twenty-two million metric tons.

Mr. COMBEST. Right.

Mr. DANIEL. And now it's running around 45 to 48 million metric tons because of their droughts.

Mr. COMBEST. All right. So we actually may be showing—for example, that was the point I was going to get around to, that we may be showing equally or as much as far as total volume in bushels to Russia.

Mr. DANIEL. But we have always in the past, when Russia—and I can go back through history—we have always maintained a constant 70 percent through history.

Mr. COMBEST. Right.

Mr. DANIEL. And that we lost the growth market of the last 5 years, which was Russia.

Mr. COMBEST. Right.

I asked an individual administration witness here before one of our subcommittees not long ago, talking about the fact that we were overpriced and that we were not able to compete internationally because we were too high priced—and asked him then because part of the testimony was that we were selling grain to Soviet Union, why, and he said because of agreements.

Are you aware of, and if so, at what period, the other countries listed there as a proportional share of the U.S.S.R. import market work with them under agreements?

Mr. DANIEL. Most of it started in 1979.

Mr. COMBEST. Most of the agreements?

Mr. DANIEL. Absolutely.

Mr. COMBEST. And they are working under agreements?

Mr. DANIEL. So guess what happened in 1979? I am telling you, when you have those structural changes, you pay for it.

Mr. COMBEST. So most of those are, then, working on some type of longterm, shortterm, but some type of agreement on an annual basis?

Mr. DANIEL. Absolutely.

Mr. COMBEST. OK.

Mr. DANIEL. Five or six years at that time.

Mr. COMBEST. Thank you, sir.

Mr. BEDELL. Thank you, Mr. Combest.

Mr. Penny.

Mr. PENNY. Thank you, Mr. Chairman.

Your testimony before the Senate on Friday, March 15, quoted you as saying it would take 4 years before lower prices resulting from the administration's farm bill would be offset by increased export volume. Is that in your testimony again this morning?

Mr. **Daniel**. This testimony this morning dealt with our comparative advantage in export markets as my challenge, and that was on farm policy, and I was dealing with farm policy before the Senate. If you would like to have me—that the question is very——

Mr. **Penny**. Would you say that for the record here in the House?

Mr. **Daniel**. For the record, and I will say, it, sir, that if you follow the administration's policy to lower prices, it will take over 4 years to get the declining price offset by higher volume.

Mr. **Penny**. Back in December 1981, when the President signed into law the Agriculture and Food Act of 1981, he said,

> This bill will help farmers expand foreign markets and enhance our already positive agricultural balance of trade. I would like to challenge America's agricultural community to take full advantage of these export incentive provisions. I believe we can increase our agricultural exports 42 percent by 1984. That would mean $64 billion in agricultural trade, an increase of $19 billion pouring directly into our agricultural economy.

[The statement follows:]

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release December 22, 1981

STATEMENT BY THE PRESIDENT

I am pleased to sign today a bipartisan farm bill that recognizes both our reliance on the American farmer and the limits of government.

This legislation is the result of many months of hard work, both in the Congress and in the Administration. There are many in the House and Senate who deserve credit for their efforts, but in particular I would like to thank Senators Jesse Helms, Bob Dole and Dee Huddleston, and Representatives Kika de la Garza, Bill Wampler and Tom Foley for their leadership. This bill provides needed assistance to our farmers and ranchers, benefits consumers, and is responsible from a budget perspective.

The strength of our economy is our reliance on the marketplace. All Americans are gripped today by a painful recession. Our agricultural producers -- the farmers and ranchers who are our mainstay -- feel the sting of high interest rates and inflation the same as any other businessman or woman. Returning to the principles of free enterprise will return us all to prosperity.

The Agricultural and Food Act of 1981 recognizes the importance of the marketplace and emphasizes the great export potential of American agriculture. This bill will help farmers expand foreign markets and enhance our already positive agricultural balance of trade. I would like to challenge America's agricultural community to take full advantage of these export incentive provisions. I believe we can increase our agricultural exports 42 percent by 1984. That would mean $64 billion in agricultural trade -- an increase of $19 billion pouring directly into our agricultural economy.

Funding for significant programs such as food stamps, agricultural research and extension services and Food for Peace are also authorized in this bill.

We should never forget that American farmers and ranchers are the most productive in the world. On behalf of all Americans, I thank them for the abundance we enjoy even in these difficult days. I sign this bill in the belief that it will yield benefits to both producers and consumers. Working together, sensitive to the needs of each in the marketplace, we can restore prosperity to all our people.

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Mr. Penny. Was it realistic for the administration to expect that to occur?

Mr. Daniel. No.

Mr. Penny. Could they have, by implementing programs differently within the context of that farm bill, made this kind of scenario occur, or was it doomed to failure from the start?

Mr. Daniel. I think it was doomed to fail from the start. That is my personal opinion. Because what happened at that time, they were in the midst of a world recession, which they should have known, hurting food grains. The value of the dollar had already exploded by that time. Now, if they had said it in 1978, I would have kind of said, "Well, you've got an excuse." But the value of the U.S. dollar had already exploded, interest rates had already reached 22 percent, and everybody agreed that the export market was in trouble and dropping prices would not get that type of response.

Now, if they want to still live under the concept that free trade is there and we are going to get every market in the world, and that free trade in the world is the way to go, then they will make the same mistake again.

Mr. Penny. I have a colleague in the other body who seems to feel that, if anything, we ought to go to an even more rapid decline in our support for price here domestically to get back as quickly as possible our competitive edge in the world market, and that we will make it up on volume. I have heard your comments throughout this morning, and I take it you are somewhat skeptical of that approach.

Mr. Daniel. We had a debate in Lincoln, and I tried to bring everything I could, and I apologize. There was a whole different analysis and a big symposium held in Lincoln on this whole study, bringing in all the top economists who had estimated those. And everybody are beginning to come to agreement, even though they won't admit it. That in the short term, 1, to 2, to 3, to 4, years, the elasticity is less than 1. So, any type of a quick—in fact, within 1 year, to be honest with you, within 1 year the elasticity in most estimates is 0.2.

Now, you talk about a collapse in revenue, when you have a price change of that magnitude; 0.2 at this level of glut and so forth would have a significant collapse in U.S. farmers. Yes; he would get a correction—after a massive bankruptcy in the United States of U.S. farmers. We would probably have them all on the bread line, and we probably wouldn't have anybody out there driving tractors. And yes; we would have a significant acreage control program then, and I think we would see exactly most of you and I and everybody else around here out of business. Excuse me.

Mr. Penny. Do you have any statistics to show what a wheat surplus does to corn prices? We have a corn surplus, as I understand, of about 1 billion bushels. We have a wheat surplus of about 1.4 billion. What effect does that kind of an excess in wheat production have on other producers, particularly corn?

Mr. Daniel. I, again, apologize. I don't know whether I have it or not in here. I was trying to put together everything I could think of. I don't have it.

What it shows is that when we had this big wheat surplus it drove U.S. wheat prices down, and the corn price stayed high. What you have is about a 300 million to a 400 million bushel increase in feed grain usage in the United States alone. So basically, if the wheat price collapses, the first thing that happens you ask the livestock industry to substitute wheat for corn, so of the corn market you lost about 300 to 400 million bushels. And probably in the Russian market, whereas the other one that they very, very quickly substitute from feed grains to wheat because they feed both of them, there is probably another I imagine, if I were to estimate it correctly—I don't have that one on the tip of my tongue, but I imagine we probably lost another 200 or 300 million bushels.

So, basically what you have is about a 400 million bushel, 500 million bushel switch because of that surplus, and that is as close as I can get right now without doing some analysis for you.

Mr. **Penny**. You are kind of hinting that, in fact, things would be worse for corn?

Mr. **Daniel**. I am sorry. If they lost that much demand.

Mr. **Penny**. Things would be worse for corn if that surplus in wheat were larger. Is that what you are saying?

Mr. **Daniel**. Higher surplus wheat means lower wheat prices and a switch from feeding corn to feeding wheat, which was about a 400 million demand switch in the United States and abroad. OK?

Mr. **Penny**. Yes. I appreciate that. Thank you.

Mr. **Bedell**. Dr. Daniel, I think you gave us the information we tried to get from the Department of Agriculture. You have got it right here.

Mr. **Daniel**. Do you know where I got the information?

Mr. **Bedell**. It says right here, "U.S. Agriculture Attaché, U.S. Embassy, Argentina, 1984."

Mr. **Daniel**. Most of the information is from the ERS Service, Department of Agriculture.

Mr. **Bedell**. Well, you brought us the information at least the chairman wanted to see from the Department of Agriculture. I just think your testimony has been very educational to us, and very helpful, and certainly as chairman I want to thank you very much for your testimony.

Mr. **Daniel**. Thank you.

Mr. **Bedell**. Mr. Evans, you had another question I think.

Mr. **Evans** of Iowa. If I may, Mr. Chairman, I would like to pursue one specific point that doesn't relate precisely to anything that you have said. And I don't want to get into a long philosophical discussion of how to trade and the like, but I would like to bring to your attention one proposal that has been floating around this town here lately. It has to do with ethanol and Brazil, and production of ethanol from grains in the United States. And the fact that several years ago when we put a subsidy on the use of ethanol in gasoline we made the mistake of paying that subsidy to the oil companies rather than the producers of ethanol, and as a result, there is a great tendency on the part of the oil companies to import the cheapest ethanol that they can find anywhere in the world. And to a very substantial extent right now, this is ethanol produced from sugar cane in Brazil.

The following has been suggested, and I would like your comments on the concept. That Brazil is essentially short of feed grains. That they could use essentially more domestic grain in their nation. That they have no money to buy those feed grains at the present time. That they are very fearful that we will block their market to the United States for some of the cheap ethanol from the sugar cane. And the proposal has been made, well, you get to your concern because you aren't making that ethanol out of corn. You get about 2½ gallons of ethanol out of a bushel of corn. Why not an arrangement whereby we continue to ship you ethanol made from our sugar cane in Brazil and we take a bushel of corn for every 2½ gallons of ethanol that we ship to the United States, so the net effect for the corn producer in this country would be the same as if the corn was consumed to make ethanol here?

Maybe it is not quite fair to spring that on you on short notice. But do you have any comments on that particular concept?

Mr. **Daniel**. Congressman Evans, I think that we are going to have to start doing that kind of thing. We are going to have to start saying to the rest of the world, looking not from just agriculture but electronics or ethanol, and say, look, you are trading with us on this product, what are you going to get back from us. And agriculture should be in it.

What you are saying here is let them produce what they efficiently can produce and be sure that they turn around and buy from us to give us something. Right? And we are going to have to start doing that. It is a very good example of two people using comparative advantage or subsidization. And we need more of it. I think it is an excellent idea.

Mr. **Evans** of Iowa. Thank you. Thank you, Mr. Chairman.

Mr. **Bedell**. Thank you.

Mr. Roberts.

Mr. **Roberts**. Yes, Mr. Chairman, thank you. And, Dr. Daniel, thank you for a very comprehensive statement. I apologize that I had another commitment and was not here for your full testimony. I would like, at least for my personal information, for you to respond again to the question that was proposed by my colleague from Washington, Mr. Morrison. If, in fact, as I read through your testimony here, we worship at the free market altar, which does not exist, for several years in a row I can envision—I am not too sure we will ever get out of the kneeling position. And second, if we go down the road to mandatory supply management, all we do is we encourage our competitors to produce more than we ask our farmers to set aside. And that what we really need is a price for our product, but the macroeconomic variables are such they are beyond the purview of this committee or the Congress, or maybe even the President. And so it is a rather gloomy prospect that we face.

My question to the Department witnesses was, Why can't we at least effect some contingency plans here where you don't put all of your eggs into one basket, either on the supply side with supply management or on the export side? The cost of not doing this, it seems to me, with the stress on our farm credit system and all up and down farm country it is going to be so great that we will do it in a very hasty way that could be very counterproductive over the long term.

What do we do? I know Mr. Morrison asked this question. I was not present at that time. Could you very briefly sort of outline some points here over the short term that we could give some hope to this picture?

Mr. **Daniel**. Congressman Roberts, what I was trying to point out, and I did not read my prepared testimony, and I do hope you get a chance to look through it. One of the things that I think we should make every effort we can with whatever amount of money possible to expand our demand. I mean through Public Law 480. Because one of the problems we have with other credit programs is we take it away from our own cash market. If you and I offer cash in one hand and credit in the other, they will always take the credit first.

Mr. **Roberts**. Yes.

Mr. **Daniel**. So, we need to be sure that when we offer a program it does not take our cash market away, and therefore we can get full value of it. And that is to expand and move our volume out and be competitive where these guys try to undercut us. Right? So, we would be tough that way.

Then we have to stop this continued inventory buildup, continued inventory buildup, coming back every year. We have got to stop this. We have got to manage the supply. We have to. Because if you and I get the price up, due to some very strong export expansion, 20 to 30 percent, we are going to have 90 million acres of wheat. We would be back where we were 4 years ago. I don't want to sit here 4 years from now and tell you you have still got an inventory glut.

So what we have to do is stop in place the production, and even reduce it in the short term. Let it come back slowly in a long-term program. Go into a conservation program or some program. I think we, indeed, have to have a balanced program because no matter who we are we are not clairvoyant. We can't see the future. We may need an agriculture 3 years from now that has to go full out on production or we may actually need even less agriculture. And it is better to do some of it now.

And I agree that a balanced program of export expansion without hurting our cash markets—I don't care about the other guy's cash market—without hurting ours. A balanced program of saying, if they are going to protect their industries, then we are going to do something against you. We have got to get those barriers down and move the demand side. But the excess capacity in American agriculture has to be brought under control.

Mr. **Roberts**. Have you taken a look at the marketing loan concept?

Mr. **Daniel**. Yes; I have. And it is a good idea, but be sure you don't lose your cash market because of it. That is all I am saying. Be sure you don't lose your cash market when you offer it because you will just waste your money.

Mr. **Roberts**. OK. Thank you, Dr. Daniel.

Mr. **Daniel**. That answer your question, sir?

Mr. **Bedell**. Thank you.

Doctor, did I understand you to say that the world population is growing 2 percent and agricultural production is increasing 2.8 percent?

Mr. **Daniel**. World population after 1981, there has been a slowdown to 1.8 percent. I said under 2 percent. Right now it is running at 1.8 percent.

Mr. **Bedell**. And agricultural production is increasing?

Mr. **Daniel**. About 2.5, 2.6. And by the end of the decade, they expect the world population to slow to 1.4 percent. You see the dilemma?

Mr. **Bedell**. Yes.

Mr. Volkmer, did you have any questions?

We thank you very much for your testimony. We have kept you a long time but, at least in my opinion, it has been very enlightening and very worthwhile.

Mr. **Daniel**. I hope I answered your challenge again.

Mr. **Bedell**. Yes; you did.

Mr. **Daniel**. Thank you.

Mr. **Bedell**. We next have a panel of Mr. Dick Goodman, National Grain & Feed Association, Washington, DC; and Mr. Nelson Denlinger, executive vice president, U.S. Wheat Associates, Washington, DC.

We appreciate your patience here, gentlemen, in waiting. I know it has taken a long time, but some of us feel this is a terribly important issue for us to understand as best we can.

Before you begin, the American Soybean Association has done a great deal of work and they are unable to be here. They have presented a letter to be entered into the record. I would like to read a couple of paragraphs from it before you start if I could.

It says:

> At present U.S. soybeans and soybean products are not very competitive with Brazilian and Argentine soybean and soybean product exports. Among the factors contributing to this uncompetitiveness are the overvalued U.S. dollar, the highly inflationary economies of Brazil and Argentina, the differential export taxes on soybeans and products in place in Brazil and Argentina, and the lack of effective U.S. export assistance programs.

Later it says:

> The ASA delegation—which went to Argentina—recently returned from a 12-day mission to Argentina and Brazil, where mission members visited farmers, processors, exporters and government officials. We found farmers in Argentina were receiving a price comparable to $3.00 per bushel for their soybeans and had a cost of production of $2.55 per bushel exclusive of land, return to management, and equipment. In Brazil the farmers we visited [with] were receiving approximately $4 per bushel for their soybeans and had a cost of production of approximately $3.60 per bushel exclusive of land, return to management, and equipment.

And the letter goes on to explain further what their findings are. I would ask that the entire letter be made a part of the record.

[The letter follows:]

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April 9, 1985

Honorable Berkley Bedell, Chairman
Subcommittee on Department Operations, Research
and Foreign Agriculture
Committee on Agriculture
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman;

On April 16 your Subcommittee on Department Operations, Research and Foreign Agriculture is scheduled to receive testimony on U.S. export competitiveness. While the American Soybean Association would like to present testimony at the hearing, we are precluded from doing so by previous commitments that day. Nevertheless, I take this opportunity to provide you with some information I believe will be of interest to the Subcommittee regarding U.S. export competitiveness in the soybean sector. Please feel free to make my letter a part of the hearing record, if you wish.

At present U.S. soybeans and soybean products are not very competitive with Brazilian and Argentine soybean and soybean product exports. Among the factors contributing to this uncompetitiveness are the overvalued U.S. dollar, the highly-inflationary economies of Brazil and Argentina, the differential export taxes on soybeans and products in place in Brazil and Argentina, and the lack of effective U.S. export assistance programs.

Clearly the most important factor reducing U.S. export competitiveness in the soybean sector is the overvalued U.S. dollar. Unlike most other commodity sectors, almost half of U.S. soybean and product exports are sold duty-free to the European Community. No import levies distort our competitiveness there. However, since August 1981 the value of the U.S. dollar has increased 26.3% against the German mark, 51.2% against the British pound sterling, 61% against the French franc, and 28.4% against the Dutch guilder. A German processor purchasing U.S. soybeans today for $6.10 per bushel must pay the same amount of Deutsche marks for those soybeans as he would have paid in August 1981 for soybeans worth $7.70 per bushel. A French feed compounder purchasing U.S. soymeal today at $120 per ton must pay the same amount of francs per ton as would have been paid in August 1981 for soymeal worth $193 per ton.

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Brazilian and Argentine soybean and soymeal exporters also price their sales in U.S. dollars but, because of the rise in the value of the dollar versus the Brazilian cruzeiro and Argentine peso, they can afford to underbid U.S. exports substantially while increasing their peso and cruzeiro returns. We have recently seen Brazilian and Argentine soymeal delivered to Europe for as much as $15 per metric ton below U.S. soymeal while South American soyoil has in the last year been sold in India for as much as $70 per metric ton below U.S. soyoil. With the hyperinflation that exists in both Argentina and Brazil, farmers, processors, and exporters are willing to take the best price they can get for their soybeans and soybean products, rather than hold the stocks in storage. Whenever possible, they take payment for their commodities in dollars or some other stable currency.

ASA, however, does not feel that Brazil and Argentina are going to greatly expand their soybean production in coming years unless world prices markedly increase. An ASA delegation recently returned from a 12-day mission to Argentina and Brazil, where mission members visited farmers, processors, exporters and government officials. We found farmers in Argentina were receiving a price comparable to $3.00 per bushel for their soybeans and had a cost of production of $2.55 per bushel exclusive of land, return to management, and equipment. In Brazil the farmers we visited were receiving approximately $4.00 per bushel for their soybeans and had a cost of production of approximately $3.60 per bushel exclusive of land, return to management, and equipment.

The low prices the farmers were receiving for their soybeans, compared to the world price, was the result of government export taxes and high freight costs to the ports. It was evident to the participants on the mission that farmers in both Brazil and Argentina were at best breaking even from producing soybeans and were most likely losing money. Unless there is a substantial increase in world soybean prices or the U.S. raises the U.S. soybean loan rate, we do not believe there will be a substantial increase in either Brazilian or Argentine soybean plantings next year. In fact, we would not be surprised if Brazilian plantings actually decline next year, if prices stay low.

One point on which the participants on the mission were in agreement was that the U.S. must not increase the soybean loan rate in the U.S. Any increase in the U.S. soybean loan rate would send a signal that the U.S. is reducing its long-term competitiveness in soybeans. A higher U.S. soybean loan rate would bring about an increase in world soybean prices and reduce the risks of investing in expanded soybean production in both Argentina and Brazil. The result would be more South American production and exports with a decline in U.S. soybean and soybean product exports, as well as an increase in soybean loan defaults in the U.S. ASA feels the best policy is for the U.S. to maintain its market-oriented soybean loan program as it is.

The participants on the mission also agreed that the U.S. should be investing in programs in Brazil to promote greater internal consumption of soybeans in that country. Even the new Brazilian government estimates that over half its citizens have inadequate diets. Yet, Brazil continues to export over 75% of its soybean production to gain foreign exchange to pay its foreign debt. If more of the Brazilian crop were diverted from the export market to improving the diets of Brazilians, it would increase the demand abroad for U.S. soybeans and products. We believe more soybeans would be consumed in Brazil if programs were instituted there to promote the production and consumption of soymilk, soy-fortified foods, and greater production and consumption of pork and poultry. We believe a program aimed at promoting greater Brazilian soybean consumption would be one federal foreign aid program that makes sense, especially since it would be supporting democracy in Brazil, the third largest country in our hemisphere.

There is no doubt the competition to U.S. soybean and soybean product exports is greater now than at any time in history. The producers in Brazil and Argentina are efficient and aggressive. Yet, if the U.S. dollar returns to a more equitable value and if the U.S. does not raise our soybean loan, thus providing incentives for additional South American production, we will soon regain our export competitiveness. However, we must use whatever resources we have now to fight for foreign markets and maintain our market shares. The prophecies of lost foreign markets otherwise will be fulfilled.

I will be pleased to provide you with any other information you desire.

Sincerely,

John Baize

John Baize
Director, Washington Operations

JB:ls

cc Hon. Pat Roberts

Mr. **Bedell**. You may go ahead, Mr. Goodman.

STATEMENT OF RICHARD GOODMAN, MEMBER, AGRICULTURAL POLICY COMMITTEE, NATIONAL GRAIN & FEED ASSOCIATION

Mr. **Goodman**. Thank you, Mr. Chairman.

My name is Richard Goodman. I am vice president of Continental Grain Co. in New York. I serve on the Agricultural Policy Committee of the National Grain & Feed Association, which I am representing here today. And we are very pleased to have the privilege to be able to be here with you and give our views. A summary of my statement is as follows.

An assessment of our current export competitiveness is easy. We are losing markets at a rapid pace, and the evidence is everywhere. This year the United States will export 54 percent of the world trade in feed grains, while in 1979 the U.S. share of that same market was 72 percent. This year America will export 36 percent of the world free trade compared to 48 percent in 1981.

Looking at soybeans or any other bulk agricultural commodity, the situation is much the same. Over the last 4 or 5 years our best markets have been stagnant. Most agricultural markets, particularly export markets, are on the decline, and we probably have not seen the worst. It is predicted that U.S. wheat exports will be less than 25 percent of the total market next year. We think it is very likely that total exports of wheat, corn and oilseeds for 1985–86 will drop below the 4 billion bushel level. This is the lowest in 10 years and potentially 25 percent under the peak of 1979–80. These figures are alarming.

The problems with exports are very familiar. The world is just beginning to fully recover from a recession. Debt-ridden countries are in many cases still strapped for cash. Unfair trade practices of certain nations have also taken away from traditional markets. But the effects of subsidized competition has probably been overstated. A large majority of exporting nations employ no such practices directly. Argentina, for example, taxes its agricultural exports.

By far, the two most influential factors eroding U.S. export competitiveness since 1980 have been the increased value of the dollar and domestic agriculture programs. These factors have worked in tandem to price U.S. grain out of world markets. In some cases U.S. grain prices today are one-third higher than grain from foreign sources. With this kind of price spread, there is little question why importing nations are canceling orders for U.S.-origin grain. In fact, at current prices for United States versus foreign-produced grain there are strong incentives to import grain into the United States.

Certainly a lower valued dollar in relationship to other major world currencies would help the United States become more competitive. And to this end, we commend and support the Congress in its efforts to reduce the Federal deficit, which, in part, contributes to the current strength of the dollar. However, the overvalued dollar would have considerably less influence if domestic farm policies were more flexible. Until the United States adopts a system of flexible price supports in its agricultural programs, U.S. export competitiveness will continue to be adversely influenced by exchange rate relationships.

For 50 years we have operated under the same kind of farm programs. For 50 years we have had variations of loan rate programs, income support payment and land diversion programs, and now, in 1985, we find ourselves continuing our struggle to make these outdated programs work in an environment which is totally different. We are in a new ball game and the old rules do not fit. Many foreign nations have become highly efficient food producers. Many others are striving for self-sufficiency. These developments and the openness of the world economy have made our rigid farm program policies obsolete.

Our loan rates no longer just guarantee prices to American farmers, they now guarantee prices to the world. And at today's exchange rates those price guarantees are very attractive to foreign competitors. U.S. acreage reduction programs invite our competitors to increase their crop acreage in order to supply markets that we voluntarily give up by diverting our crop acreage.

Substantive and constructive changes in U.S. agricultural farm programs are needed to correct the fundamental causes of declining exports in farm income. To delay these changes will only cause greater losses in export markets and prolong the economic weakness of the U.S. agricultural sector.

Our association appreciates the opportunity to present these views, and I would be happy to respond to your questions. Thank you.

[The prepared statement of Mr. Goodman appears at the conclusion of the hearing.]

Mr. **Bedell**. Thank you very much, Mr. Goodman.

Mr. Denlinger.

STATEMENT OF NELSON DENLINGER, EXECUTIVE VICE PRESIDENT, U.S. WHEAT ASSOCIATES, INC.

Mr. **Denlinger**. Thank you, Mr. Chairman and members of the subcommittee.

My name is Nelson Denlinger, and I am executive vice president of U.S. Wheat Associates. I am here today to testify on behalf of U.S. Wheat Associates and the wheat farmers in the 14 wheat producing States which we represent.

U.S. Wheat Associates is a market development organization funded by checkoff funds in the 14 States and the Foreign Agricultural Service of the U.S. Department of Agriculture. We work to increase the export sale of U.S. wheat through milling, baking, marketing, and related activities abroad. We do not generally become involved in domestic farm policy issues or legislation in general. That is handled by our sister organization, the National Association of Wheat Growers. We do, however, from time to time appear before congressional committees in order to deal with trade issues.

I would like to congratulate the subcommittee on holding these hearings. We believe that they are timely and, of course, important for our export markets.

As I mentioned earlier, we are the export development organization representing U.S. wheat farmers, and in order to accomplish this goal, we maintain 13 regional offices overseas. And those offices, as well as our office here in the United States, is in touch with main wheat markets on a daily basis.

As I am sure you are aware, the export situation for wheat, as well as other U.S. agricultural commodities, has made an appreciable change for the worse since the high-water mark of 1981. In terms of wheat exports, we have seen our exports fall from 48.2 million metric tons in 1981, valued at $7.9 billion, to estimated sales this year of 39.4 million tons at $5.9 billion. This represents a decline in market share from 48 to approximately 35 percent of the world trade.

One of our most severe problems today is the impact of the overvalued dollar. And I guess one of the reasons we prepared this statement in this way was that in our view there has been a tendency in some quarters to underplay the value of the dollar as a trade factor. I think the testimony this morning has probably reduced that view to some extent, so there is not as much need to develop it.

I might say further in recent weeks we have seen indications that U.S. wheat sales have been lost. Turkey being one example, where they had credit but they were discouraged from buying because of the fear that the U.S. dollar might be even stronger in the future. They were concerned, as some other countries are, with heavy debts over the problems of repayment.

We have seen many reports in the last few months of what has been happening to the whole structure of agriculture. The whole export infrastructure system is being reduced; meanwhile, our exporters continue to expand their facilities. Currently, the impact of the unexpected strength of the dollar has expanded well beyond the U.S. wheat market to include all agricultural and nonagricultural exports, as well as import-sensitive industries within the United States.

Unfortunately, many of the steps taken to protect the import-sensitive industries within this country have adversely impacted U.S. agricultural exports, and wheat exports in particular. Here we are referring particularly to the textile problem, and I think this subcommittee is probably aware of the history of that.

A second major factor in the decline of wheat exports has been the long-term policy of the European Community. I assume that that has been well enough covered to the satisfaction of this group this morning. Despite the fact that there has been considerable discussion over the EC in recent years concerning subsidization, in our view there is very little indication short of economic necessity that there will be any change in the European Community's policies. That might enter into some of our thinking with regard to a new GATT round in the future.

In terms of the trading practices of our other competitors, we should point out that the Canadians, Australians, and Argentinians all use wheat boards, which are the sole sellers of wheat and they are able to work against the system of administered prices using U.S. prices as a benchmark. This enables them to undercut those prices in order to increase their market share. This is especially true in cases where the wheat is purchased privately rather than through public tenders.

I might also add that our competitors not only cut prices, but they can and do offer reduced credit rates. They can provide bonus wheat and also furnish facilities such as elevators as a buying incentive. This is particularly a problem in the current competitive market that we have. Aided by the stronger dollar against domestic currencies Canada and Argentina have increased their market shares. Since 1981 the United States share of world wheat has gone from 48 to under 40 percent, while Canada has gone from 17½ to 22 percent, and Argentina from slightly over 4 percent to more than 10 percent.

One factor allowing the competitors to increase their market share has been the increase in long-term agreements, and we estimate that roughly 35 to 40 percent of the world wheat trade is currently covered by LTA's.

I would also, in hastening ahead, like to touch on some of the specific actions of the U.S. Government that have impacted on our wheat export markets in recent years. Obviously the grain embargoes during the 1970's, concluding with the 1980 Soviet embargo, have had a serious impact not only on our access to markets, but also in production practices of competing nations. I might also say that the embargoes have also encouraged many buyers to spread their purchases around to cover themselves.

Aside from the embargoes in recent years, there has also been a series of trade disputes between the United States and wheat-importing countries which have severely impacted our exports to those countries. The most notable being the textile dispute with the People's Republic of China. In the interest of protecting the domestic textile industry, actions have been taken which have severely impacted our wheat sales to the PRC, and will probably affect our sales there for many years to come.

It is my understanding that there is currently legislation in both the House and the Senate which would establish reduced textile quotas on many of our best customers. If this legislation does become law, it will clearly impact not only in the PRC market but other Asian markets as well. We clearly feel that some consideration should be given to the retaliatory effect of these kinds of governmental actions.

I would also like to point out that in terms of using credits for exports, which we believe, incidentally, are very important, that timing is also important in releasing those credits. In the case of some of the governmental departments, there seems to be no recognition of that fact.

Our final comment is also directed toward the proposed fifteenfold increase in the origination fee, which I gather was developed by the Office of Management and Budget. We understand that the additional cost of this origination fee would increase a 25,000-ton cargo of wheat by 20 cents per bushel, or $183,500. This additional credit cost would more than offset any competitive advantage that our credit programs have been providing us and, in my opinion, over the past 2 years our credit programs have been a primary factor which has kept us in many foreign wheat markets.

In our view, the adoption of this proposal would be a total disaster in terms of expanding, or even maintaining, our current export levels. In the same vein, the recent court decision regarding the applicability of cargo preference rules for the blended credit program, as well as the statement indicating that this should also apply to the GSM-102 guarantee program has effectively killed the blended credit program and threatens the entire CCC export credit program.

In our opinion, it is imperative that legislative action be taken to correct this situation. Pursuing this issue in the courts is likely to be time consuming with the outcome very unclear. Our producers are looking to the administration to support legislative change as proposed by Secretary Block. Prompt action is needed by the Congress on this legislation so that a bill goes to the President and the $536 million, which has been suspended under the blended credit program can be opened for business. We need blended credit as a part of the total credit program that the USDA can offer to match what our competitors provide.

I thank the subcommittee for this opportunity.

[The prepared statement of Mr. Denlinger appears at the conclusion of the hearing.]

Mr. **Bedell**. Thank you, Mr. Denlinger.

Mr. Roberts.

Mr. **Roberts**. Yes. Thank you, Mr. Chairman. Just a few questions.

I certainly want to thank both of you gentlemen for fine statements.

Mr. Goodman, on page 5 you have indicated, "because of these constraints, we firmly believe that the difficult times in the short term cannot be avoided, regardless of Government farm policy decisions." I have been making a speech to my people in Kansas that we will survive these perilous times in spite of Federal farm programs. Perhaps that is the case. I hope it isn't that much of a doom and gloom kind of situation.

But at any rate, on page 7 you stated your opposition to something called land diversion policy. Does that include a long-term conservation program or something of that nature, or is that something different there?

Mr. **Goodman**. No, it doesn't include long-term conservation measures. We are supporting a land conservation, soil conservation program that is directed at lands that are eroding or are erodible. But land diversion for program benefits is not that kind of diversion, and that is why we say here that we are opposed to a land diversion program for several reasons.

But for conservation purposes unrelated to individual farm eligibility for commodity programs, we are in favor of that.

Mr. **Roberts**. On page 8 you discuss income support payments, and then you go on in a rather interesting scenario here on page 9. You say:

> Income support payments should be made directly to farmers on a per-bushel or per-acre basis on the 1985 base acreage with no stipulated requirements for planting the crop to receive payments.

And then you go on down and say:

The payments will be known for 3 years which will help the producer plan. If the payment levels will not provide adequate income, farmers will have the opportunity to plan how to get out of farming . . . or to invest futher if they find it profitable.

I am a little confused as to how these payments would be made if you are not going to plant any crop. Are you just saying that there is so much money available in the budget in terms of the projection that we deem proper in agriculture, and we will divide those payments up for 3 years, and that is what you are going to get whether you plant a crop or not; and if you make it, fine, and if you don't, why, you know you are on the way?

Mr. GOODMAN. Yes, more or less, whatever the budget provides. The point that we are making is that to take the base acreage that exists for 1984 and 1985, however that is best available statistically from ASCS, and the historic yield for that base acreage, base the payment on that. That would be a per-acre payment. And tell the farmer that that is what his payment will be for whatever period of time you want to budget that forward, 3 years or something we mentioned as an example.

The reason for that is that you eliminate the effects of income support payments from production decisions. You can't farm the program because your payments are set and fixed and you know what they are going to be now and the next year and the year following.

The other reason for that is with that foreknowledge of how the payments are calculated and how they will be made in the future, as we suggest, we would I think help farmers considerably if they know what their future prospects are.

Mr. ROBERTS. If we don't justify these payments to farmers on supply management, on the theory of supply management to get the surplus down, to get the price up, to restore profit to agriculture, et cetera, et cetera, are we simply making—what?—income transfer payments to agriculture to help the farmer adjust to this period? It is just sort of a social payment?

Mr. GOODMAN. Yes. It is an income transition payment that would be made for some period of time, and it could be scaled down over some period of years, but that would be known and that would be the support for stabilized income for transition to the measures that would have to be taken with regard to the commodity programs pricewise.

Mr. ROBERTS. That is an interesting concept. I am approaching it with an 11-foot pole at this juncture, but it is interesting.

I also want to thank Mr. Denlinger and the U.S. Wheat Associates for all the fine work that you do. And I especially appreciate your comments in regards to the situation with the textile agreement and also with regards to cargo preference. You have been very helpful in these efforts.

Mr. DENLINGER. We appreciate your support.

Mr. ROBERTS. OK. Thank you, Mr. Chairman.

Mr. BEDELL. Mr. Evans.

Mr. EVANS of Iowa. Thank you, Mr. Chairman. Yes, I would like to explore a couple of things here for a minute. One having to do with currency fluctuations as opposed to the value of the dollar now relative to a basket of other currencies in the shorter term rather than the longer term. Someone I think told me that until very recently, at least, many of our potential customers who wanted to use our credit program, such as GSM-102, were very reluctant to enter into such transactions where the credit extended over a period of several years because of the fear that the dollar would continue to go on up and that their cost of repayment would greatly increase because they had no hedge against the increasing value of the dollar. I think that is a valid fear on their part, particularly if they come from a nation where you can't hedge the currencies very well.

Right now, however, it seems like the dollar has turned for the moment. And I guess I think it has turned for the long term, but its downward progression will be rather modest. My point to you is do you see that reluctance to use our longer term credit now easing since the prospects for further increases in the value of the dollar are much less than they were several months ago?

It would appear that the best projections now are that they will be able to pay off with cheaper dollars several years down the road.

Mr. **Denlinger**. I think it is too early to answer that question. I think you are right in terms of the movement. But if we could give them any certainty that the trend would continue downward, I think we would have a better shot at it.

Mr. **Evans** of Iowa. That would revitalize those guarantee programs.

Mr. **Denlinger**. I think it would help, yes.

Mr. **Evans** of Iowa. Let us move to another subject about government-to-government deals, bilateral transactions, wheat boards as they exist in many of our competitors' nations, and the statement that you made about the very poor timing of some of our releases of credit, et cetera, et cetera. The question I am getting at is in these other countries such as Canada, where you have a Canadian Wheat Board and Argentine Wheat Board, are the decisions of those bodies as they relate to exports in those countries at all influenced by international politics, or are they governed principally by what you can do to maximize your trade?

I am a strong believer that in many of our subsidy programs and guarantee programs politics in the broad sense, international sense of the word, has entered in strongly to the timing of those decisions and the amount that has been made available. Do our competitors have similar difficulties or not?

Mr. **Denlinger**. Well, the Canadians and the Australians do not really reveal all that much in the way of prices or market information.

Mr. **Evans** of Iowa. But usually it is fairly obvious from the results whether politics enters in.

Mr. **Denlinger**. But in our case it seems as if we are often shooting ourself in the foot and finding ways to make sure that we don't do what is in our economic interest, whereas the competitors do seem to be at least more flexible and more responsive in terms of offering incentives or mixing commercial and food aid into one package so that they get the sale. We seem to be unable to do that.

Mr. **Evans** of Iowa. You are saying to me, then, that with most of our competitors sales is higher on the list of priorities that govern policy than it is in our own country. Is that correct?

Mr. **Denlinger**. Yes. With us it seems to be a very low priority. With them it is a much higher priority.

Mr. **Evans** of Iowa. Yes.

Thank you very much, Mr. Chairman.

Mr. **Bedell**. Thank you, Mr. Evans.

Mr. Penny.

Mr. **Penny**. Thank you, Mr. Chairman.

I have a question for Mr. Goodman. And if you don't have the information, I wish you would submit it for the committee record. What agricultural production or processing ventures is your company involved in overseas?

Mr. **Goodman**. I didn't quite hear you, sir.

Mr. **Penny**. What agricultural production or processing ventures is your company involved in overseas?

Mr. **Goodman**. Well, we are involved with flour milling in the Caribbean and Latin America and in Africa. And we are involved with oilseed processing in the United Kingdom and in Italy and in Latin America.

Mr. **Penny**. Do you own acreages in any nations either produced by employees by your company, or do you own acreages that, in turn, are being produced on by others in contract with your company?

Mr. **Goodman**. We don't produce at the farm level as a company in any of those companies. Now, I would have to check to see whether we, in fact, in some cases contract for acreage from farmers to produce a certain product for our processing mills or not. I can't tell you that offhand. But we are not engaged in the production process at the farm level.

Mr. **Penny**. If you would come across any information on contract arrangements, I would appreciate that being submitted for the committee record.

Last year, how much commodity did your company move in the international market? I guess I am talking domestically, in moving out of here into world trade. Out of our Nation into world trade.

Mr. **Goodman**. In terms of bushels by commodity?

Mr. **Penny**. You could give it that way. I think that would be the most helpful.

Mr. **Goodman**. I will try to get that information for you.

Mr. **Penny**. OK.

Right now the way it is handled is that you get a margin on a per-bushel basis in terms of the grain that you would move into the world market. What would you think of changing that so that your firm would be paid a percentage of the value of that which was sold on the world market? Instead of getting a margin on each bushel, what about changing it so you would get a portion of the total value that is sold?

Mr. **Goodman**. I don't see the difference, really.

Mr. **Penny**. Well, there could be a difference. If you get a portion on each bushel that goes into that world market, you have got a guaranteed income based on the volume that you sell. But if you have to take a percent based on the price that you receive, you might, in fact, be getting less than you are now getting. And that is what the farmers are faced with every day, and I am just wondering whether the processing and marketing industries here in America would like to operate on that same basis.

Mr. **Goodman**. I think it would depend on whether the volume of sales that you would have. If the volume is the same and the margin on a per-bushel basis, transaction by transaction, adds up to the same percentage of total revenue, there isn't any difference.

Mr. **Penny**. There is a way it would all come out the same. But if, for example, we end up selling more bushels this coming year, and so far this year, according to a report in the Journal of Commerce on Tuesday, April 2, 1985, it says that we have increased both corn and wheat sales so far this year over the same time period last year. So, in total volume it appears that we are making increased sales to this date. And that then would give a certain amount of income per bushel for the traders.

But even though the volume is up, the income to agriculture is down because we are getting paid less for those bushels, and so our farmers aren't necessarily benefiting by that increased volume. And I am making the point that if farmers have to operate on a basis where they get their income based on the value of what we sell, wouldn't it be a proper kind of policy to have the traders take their income on that same basis; on the value instead of the volume?

Mr. **Goodman**. The way that our marketing system works now, and these volume figures I think are misleading because the forward sales for the rest of these years are practically nonexistent.

Mr. **Penny**. But even if the forward sales are practically nonexistent, we had a report here today from the Foreign Agricultural Service saying they project by the end of the year pretty much a constant volume moving into the world market when compared to last year. What we expect to be paid for that is several billion dollars lower than last year. So, here again, you can project a constant volume of sales throughout the rest of the year, but the story still remains the same: That the value of that to American agriculture is lower. And if the American producer, the farmer, has to live based on the value, then it seems to me that maybe the traders also ought to live and die, make their profit or their losses, based on that value.

You know, if both of us are in this game together, the producers as well as the marketers or the traders, then I think they will both be here together before the committees of Congress agreeing on essentially the same elements in a trade policy and in a farm bill. If they both have to live and die based on the value instead of the volume.

I don't have any further questions, and I am not sure that Mr. Goodman has a further response.

Mr. **Bedell**. We thank you very much for your testimony, and we appreciate it very much. Thank you.

Our next witness is our colleague, Mark Siljander.

Mark, we are glad to have you here. Sorry to hold you up so long.

STATEMENT OF HON. MARK D. SILJANDER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. **Siljander**. Thank you, Mr. Chairman, for the time of the committee. I am happy to wait as long as necessary. I think the conditions in the farming community are so severe that a slight wait for you and me is irrelevant, considering the plight of all the farmers that are going under in your area as well as in mine.

I have prepared testimony I would like to submit for the record. I would not like to read it, however.

Mr. **Bedell**. We welcome that, and it certainly will be entered completely in the record.

Mr. **Siljander**. Mr. Chairman, I don't have to go through a long history of the agricultural community over the last 15 years. But I would say I am a little bit concerned about some of the fingerpointing going on, as though it is the farmers' fault that they are in this condition. One out of ten are going bankrupt. That figure could become 15 or 20 percent higher in the next 2 to 3 years.

I can't believe for the life of me after seeing the inconsistency in the last 15 years' farm policies that one can in an honest and sincere way point a finger at the farmers and say, "It is your fault." We all remember that famous quote of the former Secretary of Agriculture, Earl Butz, who told the farmers to plant fence row to fence row. So, the farmers with cheap money and with encouragement by the Government to plant fence row to fence row, did as such.

The inflationary policy—and the logic was good at the time—was to buy more land using cheap money, then as land depreciated with inflation, pay off the loans with the appreciation in the land value. And it sounded logical. Except after the invasion of Afghanistan, America initiated an embargo. And the European Economic Community—who I meet with, incidentally, as a member of the Foreign Affairs Committee every year about ag issues—decided to take advantage of the unreliability that we were perceived to have as a trading partner. They began subsidizing their goods, the dollar began strengthening—an accumulation of all of these factors.

After 13 years' increase of export market, we began dropping over the last 3½ years, in terms of the total output of agricultural goods overseas. So the farmer, who has been given cheap money to purchase more land, new technologies in fertilizer and irrigation, now is in a crisis: We are in a deflationary position, land is depreciating as opposed to appreciating. And the farmers have found themselves in the midst of an international as well as domestic crisis which has put them in a very precarious situation.

So, when we point fingers, Mr. Chairman, I think we ought to point back at ourselves as a government institution, and at the inconsistent policies we have had over the last 15 years. We have prodded farmers to do something that has turned out to be near suicide, and we have placed many of them in a catch-22 position.

So, in summary, these varying policies have produced depressed prices, depressed foreign markets, and surpluses. For the record I would like to submit, Mr. Chairman, specific surpluses of butter, cheese, dried milk, barley, corn, oats, rice, sorghums, soybeans, wheat, honeyed cotton and staple cotton. Supply and demand, Economics 101: With tremendous surpluses the price is going to be depressed. Based on the 1947 Agricultural Act, when the price begins rising over the 105 percent level, the Government dumps the surpluses. Just when the farmer thinks he can make a penny or two a bushel, the Government gets involved and depresses the price once again. So the farmer finds himself competing, not only with other farmers overseas who are being subsidized, which is bad enough, but competing with the Government and the Government-owned surpluses. The Government is taking over because of defaults.

In part, Mr. Chairman, my solution would be to reduce surpluses by expanding overseas markets. That seems to be an ambitious frontier. I would urge the committee in their deliberation of whatever farm bill is finally the instrument for developing farm policy for the future, to consider four basic points of a bill I introduced, resolution 201, the Agricultural Trade Equity Act of 1985. I would hope you would consider these four points as concepts to incorporate, in whatever vehicle this committee so decides to use.

The first point, the CCC items. The Commodity Credit Corporation surpluses that we have could be used to gain foreign markets by simply instructing the Secretary of Agriculture to identify markets loss and new markets we could potentially gain. And I argue that we will sell at world market prices the various commodities: dried milk, wheat, rice, grain, et cetera. As an incentive factor, we would also throw in some of that same CCC item for free, for half price or discounted. Any downtown merchant in my district knows when they are oversupplied. They simply engage in a two-for-one sale, or buy one pair of shoes and get another pair for 50 cents. It is a common free market principle, often used.

This way we can effectively compete against the EEC's subsidization and their policies overseas. Also, we could identify markets gained and lost, potential markets we could gain and the former markets lost in non-CCC items: fruits, vegetables, beef and other products. We could then use those Commodity Credit Corporation surpluses as an incentive to buy our non-CCC items. So we would begin expanding markets in other areas besides strictly those that are the surplus areas, but we would use our surpluses to our great advantage.

Point three, over 20 percent of the international trade market deals with bartering and trading. I have just come back from the South African region. They are in a serious drought. There have been environmental crises, economic problems, and political dilemmas all throughout the African continent. They have many strategic ores and minerals that our government and industries use totaling billions of dollars per year.

My argument is, why should zero percent of our trade policy be barter and trade and 20 to 30 percent of other nations be in barter and trade? Well, we never had to worry about the trade imbalance before the last 4 years. Now that we are in trade crisis, we have to begin expanding our ingenuity and look for alternative means of expanding our markets. And I would argue why should we push up the deficit by billions of dollars buying strategic ores and minerals when we could engage barter and trade using our surpluses? The government owns, the government pays—the taxpayer I should say pays over half a billion dollars a year just for storage and maintenance fees for these surpluses. Prices at the local level are depressed for the farmers. So, I argue we should engage the barter and trade system. And this would also be a directive given to the Secretary of Agriculture.

And lastly, as a member of the Foreign Affairs Committee I am aware of the three basic titles of Public Law 480, the Food for Peace Program. And I would urge that in expanding Public Law 480 we should look at reducing dollar commitments to countries and Third World nations who are in dire need of food and other types of assistance. I think we, as a government with humanitarian concerns, should offer food in place of many of the dollars in cash that we contribute to governments.

I don't have the list with me, Mr. Chairman, but I would be happy to submit it for the record another time. Several countries that we have contributed dollar aid to have used American dollars to buy military goods; or even more appalling, they have used our dollars to use European commodities at a subsidized price to feed their people. This is madness. Madness. They should use our supplies, our foods, directly.

Now, granted, they could feed the military troops as opposed to getting it to the people. There are problems with the Public Law 480 program, and I will admit that. But we should be working out a system where we would contribute our Public Law 480 program as opposed to dollars with criteria that, for example, would not disrupt local markets. Why should we flood a country with food and disrupt local markets when they could be productive themselves? So, there are foods and CCC items that we could donate to Third World countries that would not disrupt local markets; the foods that they simply cannot grow for environmental, economic or others reasons.

Ingenuity is the bottom line for all four of these points, Mr. Chairman we should direct the Secretary of Agriculture to take a more aggressive approach to international markets, using the surpluses that the taxpayer now owns and pays half a billion dollars a year to store and maintain, and by expanding our foreign markets.

Mr. Chairman, I have heard you give the same speech: We know that of each billion dollars with which we expand our foreign markets we gain anywhere from 20,000 to 35,000 American jobs: transport jobs, accounting jobs, and others. It is not just the American farmer who benefits by lowering our surpluses and expanding foreign markets. If we begin reducing surpluses, we can then more effectively phase into a more market-oriented farm system. That is the idea of limiting surpluses and expanding foreign markets, Mr. Chairman. We hopefully can then engage more of a supply/demand, free-oriented market system for the agricultural community.

[The prepared statement of Mr. Siljander appears at the conclusion of the hearing.]

Mr. Bedell. Thank you very much, Mark.

Mr. Roberts.

Mr. Roberts. Yes, Mr. Chairman. I want to thank my colleague and friend from Michigan in regards to his testimony and taking the time to appear before this subcommittee.

I want the record to show, Mr. Chairman, that our colleague has demonstrated a very keen interest and has a very real concern in regards to the problems that are facing our farmers and stockmen today. He and I have been visiting for well over 2 or 3 months, every since the session has started, on not so much the problem and pointing the finger of blame, as he has indicated, but on positive solutions. And we were talking about some export initiatives, and he has seized this opportunity and did not wait for the budget process or the farm bill process; he went right ahead and simply introduced the Agricultural Export Trade Equity Act.

I would tell my colleague that of the four proposals, or the four points that are encompassed in this legislation, two of them have already been adopted in a Republican initiative that we have proposed to the Secretary of Agriculture; the other two are under consideration and will probably be also in that same package. And I know that on the other side as well—any farm bill will be bipartisan that has a chance of passage, and very similar proposals have been offered by the other side as well.

So, I would just tell the gentleman while perhaps in any farm bill—we never have a Berkley Bedell farm bill or a Pat Roberts farm bill or a Mark Siljander farm bill—that his ideas, his proposals doubtlessly will become part of the full package in one form or another. And his constituents should know, his farmers should know, and the people of Michigan should know that he was on the front line with the ideas and, as far as I am concerned, has been most helpful in other deliberations.

I thank you for your testimony and for your leadership in this regard.

Mr. **Siljander**. Thank you very much for your comments, Mr. Roberts.

Mr. **Bedell**. The thing that troubles me is that, as I understand it, you instruct the Secretary to do these things. We have not always found the Secretary enthusiastically does what we ask him to do. I see that in regard to the dairy products you mandate that he has to export a certain amount. How are we going to get him to barter if he doesn't want to barter?

Mr. **Siljander**. Well, as far as I understand, Mr. Chairman, throughout history there has never been a statutory requirement that the Secretary must pursue barter and trade. It has been an idea that we, frankly, have never used. I would hope that if the Congress of the United States passes a statutory law that mandates the Secretary of Agriculture to begin engaging in barter and trade activities, I would certainly hope he would do as such.

Now, there might be an answer, or maybe there should be an oversight commission. Maybe there should be some requirements in the legislation that the Secretary must report his activities in at least three of the four areas, Public Law 480 is more for the Foreign Affairs Committee and the Appropriations Committee. Perhaps the Secretary should report before the Agriculture Committee on three of those four areas, and give the Agriculture Committee a report. And let the committee, then, respond in that type of check-and-balance system. I think that might be something to consider.

Mr. **Bedell**. OK. Well, we certainly do thank you for your work in this area, and we appreciate your testimony very much. Thank you, Mark.

Mr. **Siljander**. Thank you, Mr. Chairman.

Mr. **Bedell**. The subcommittee will be adjourned.

[Whereupon, at 12:50 p.m., the subcommittee was adjourned, to reconvene subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

Statement by John E. Lee, Jr.
Administrator, Economic Research Service
U.S. Department of Agriculture
before the
House Agriculture Subcommittee on Department Operations,
Research and Foreign Agriculture
April 16, 1985

Mr. Chairman, Members of the Subcommittee, I am pleased to be here today to discuss the various factors that affect the ability of U.S. agricultural producers to compete in world markets. I am accompanied by my colleague, Dick Smith, who is the Administrator of the Foreign Agricultural Service.

Recent declines in export volume, value, and market share have prompted many to argue that U.S. agriculture is no longer competitive in world agricultural trade and that the United States has lost its comparative advantage in agriculture. Our analysis indicates that U.S. agriculture still has an underlying comparative advantage. The comparative advantage exists because of our abundant natural resources, technology, a reasonable cost structure, and a well-developed infrastructure. Our fundamental comparative advantage is stronger than ever, thanks to major agricultural productivity gains since the early 1970's. However, several factors have recently inhibited the ability of the United States to compete in world markets. These factors include the global recession, developing-country debt problems, the appreciation of the U.S. dollar in world currency markets, policies followed by foreign importers and exporters, and most importantly, U.S. farm programs, interacting with all of these other factors.

To understand these conclusions, it is first necessary to understand that comparative advantage is not the same as absolute advantage, nor is it the same as competitiveness. A country can experience a loss in competitiveness, while retaining its comparative advantage. Further, a country can be competitive without having a comparative advantage.

Absolute advantage and comparative advantage are often misunderstood and misused concepts. Absolute advantage is a statement about efficient production--who can produce a commodity with the fewest resources? When costs of production are compared among countries, it is an attempt to measure absolute advantage rather than comparative advantage.

Comparative advantage is a statement about relative rather than absolute efficiencies of production. A country which has a low cost of production for agricultural commodities relative to its production costs for manufactured goods, for example, has a comparative advantage in agriculture. That country will tend to specialize in the production of agricultural commodities, which can then be traded to some other country enjoying a comparative advantage in manufacturing. Consumers in both countries will be better off because resources are used efficiently and the two countries can produce more in total than if each attempted to be self-sufficient in both goods. In the real world, where there are many countries and many commodities and goods, no country specializes in only one product. Rather, the underlying comparative advantages work to shape the mix of goods produced and traded by each country.

Competitiveness on the other hand, is determined not only by comparative advantage, but also by government policies, both domestic and trade, and other factors. An export subsidy or price support policy can turn a country which should be importing into an exporter and vice-versa. Movement in exchange rates associated with international capital flows can affect foreign purchase prices, thereby affecting exports of a relatively efficient country. Thus, comparative advantage and competitiveness are not always the same, because of distortions in markets.

Does the U.S. Have an Absolute Advantage in Agricultural Production?

To measure absolute advantage, it is necessary to be able to compare production costs among countries. This is extremely difficult. In the United States, USDA combines features of both the survey and budget approaches to determine commodity costs of production. Surveys are used to obtain data on input use and production practices. These data are then combined with existing engineering data on machinery performance to develop individual crop budgets. Budgets are updated every four years from new survey data on input use and production practices. In years between farm surveys, costs are updated for changes in input prices.

Even within the United States, cost of production estimates are subject to severe measurement and conceptual problems. First, data from surveys may be subject to sampling errors. Typically, surveys have been taken at the end of the crop year to ensure availability of cost data for the entire production/harvesting period. For producers who do not keep or use detailed records, some error may result from inaccurate recall. Second, updating simply for input price changes in interim periods may fail to capture changes in input types and quantities, and changes in machinery efficiency.

Aside from measurement problems, there are several conceptual issues that affect estimates of costs of production. Specific issues include the following:

1. Pricing operator and family labor—Operator and family labor may be a noncash cost and can represent one of the flexibilities of family farmers. But since labor is a paid expense on most farms and represents a real cost, a value is usually assigned. The wage rate assigned can significantly influence the estimate of costs.

2. Pricing services of durable inputs--Inputs such as machinery and equipment provide service for a number of years. Values such as acquisition or replacement costs assigned to the durable inputs and the method or rate of depreciation can significantly affect calculated cost levels.

3. Allocating joint costs and farm overhead--Establishing a cost estimate for a single commodity on a multicommodity farm necessitates choosing a method of allocating costs such as insurance, property taxes, and general purpose buildings and machinery to the commodity.

4. Pricing farm produced inputs--For items such as corn used as feed in livestock production, a basic issue is whether to price the farm-produced input at the going market price or at what it cost to produce the input on the farm.

5. Allocating land cost--Land is both a financial asset and a production input. The question is how to determine the most meaningful charge for the land services used to produce the commodity in a year, especially since land prices tend to reflect the capital and value of past and present price support and other government programs.

Thus, it is a mistake to talk about the cost of production for a commodity. Each farmer has a different cost structure, and each individual's cost structure may change over time. Consider, for example, the variation in estimated costs just for broad regions of the United States. Although the national average variable cost of production for wheat in 1982 was estimated to be $1.55 per bushel, costs ranged from a low in the Northern Plains States of $1.35 per bushel to a high of $2.26 per bushel in the Northeast. Similar deviations occurred for corn--from $1.09 per bushel in the Corn Belt to $1.60 per bushel in the Southwest--and for soybeans--$1.36 per bushel in the Northern Plains to $2.90 per bushel in the Southeast. Furthermore, within each region, the cost of production for many individual producers is distributed on both sides of the average.

Comparing cost of production data among countries offers even more severe problems. First, since costs from various countries must be converted from local currencies to a dollar basis for comparison, the exchange rate itself may affect apparent costs. As an illustration of this problem, imagine

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that the national average cost of production for a commodity is $1 per bushel in the United States and 2 Deutsch Marks in Germany. At an exchange rate of DM 2 to the dollar, an average U.S. farmer and an average German farmer have identical costs of production. Now, however, if the exchange rate moves to DM 4 to the dollar, the German farmer's costs (measured in dollars) decline to $0.50 per bushel, or half that of the U.S. farmer--even though actual costs in domestic currency did not change for either farmer.

Another problem is that foreign data in the detail to which we are accustomed are generally unavailable, and what data do exist are subject to all the same measurement and conceptual problems as that for the United States. Further, commodity budgets do not capture differences in technology and in the storage, transportation and marketing systems, which are more likely to differ among countries than within a country, and can have a great deal of influence on the cost of getting crops to market.

Despite all these problems, we have developed some data that indicate that the average costs of production in the United States, excluding depreciation, taxes and other fixed costs, were comparable to those of other major exporters in 1980-82. Comparing Saskatchewan with the U.S. Northern Plains, for instance, shows identical variable costs per wheat of $1.28 per bushel. Data for Australia show that the national average wheat cost in 1980-82 was $2.06, considerably above the U.S. average of $1.56. Thus, neither of our major wheat competitors appears to have a significant cost of production advantage.

The variable cost of production data for soybeans is similar to that for wheat. In the Corn Belt and Lake States, soybean costs were $1.46 per bushel in 1980-82, well below the $1.84 calculated for Southeast Brazil and the $1.73 calculated for the Pergamino region of Argentina.

For corn, it appears that the Pergamino region of Argentina had a variable cost which averaged $0.87 per bushel over the 1980-82 period, compared to the Corn Belt and Lake States average of $1.13 per bushel. But the difference rapidly decreased over the period, with the Corn Belt/Lake States at $1.09 in 1982 and the Pergamino at $1.01.

We have not yet obtained data that would give us more insight into changes in costs abroad since 1982. We do know, however, that the dollar has continued to appreciate strongly against the currencies of other countries. So if 1980-82 technical relationships and input prices have remained about the same, U.S. production costs have increased relative to those of our competitors simply because of exchange rate differences.

The foregoing discussion alludes only to variable costs, and does not take into account what has happened to land markets and land prices. Unfortunately we do not have systematic, comparable data on land prices across major producing countries. There are however two points we can make about land values. First, our experts tell us that most other major agricultural exporter nations have escaped the rapid escalation in land prices experienced in the United States, especially during the second half of the 1970's. Consequently, they have also been spared the painful readjustment of those land values as global conditions and expectations changed in the 1980's. A notable exception to the generalization is the European Community, where just as happened in the United States, land values have risen significantly in response to lucrative commodity support programs.

The second point to make about land prices (and debt levels) is that they don't directly affect a country's competitive position unless commodity price supports are adjusted upwards to rationalize or "shore up" high land values. Land values are the residual effect of actual or expected returns to land ownership. Movements in land values and the use of debt to finance land purchases primarily affects farmers' wealth and financial positions rather than their decisions to produce or not produce in the face of a set of expected returns.

Does the United States Have a Comparative Advantage in Agricultural Production?

As we discussed at the beginning of this statement, it is not absolute advantage but comparative advantage that is important in determining production and trade relationships. During the 1971-80 period, it appears that the U.S. gained comparative advantage in agriculture compared to the rest of the world, because the productivity of inputs employed in agriculture grew faster than in the rest of the world, but the productivity of inputs employed in other activities in the U.S. economy grew more slowly.

For instance, the average productivity of land in the United States increased 43 percent versus 22 percent in the rest of the world as a whole. The average productivity of U.S. agricultural labor increased nearly 97 percent, compared to 18 percent in other countries. The average product per unit of machinery used in agriculture rose in the United States but fell in the rest of the world. And, although the average productivity of fertilizer and chemicals fell throughout the world it fell more slowly in the U.S.

Data on non-agricultural activity are not easily available, except for labor productivity. In the United States, the average productivity of non-agricultural labor rose only about 16 percent from 1970 to 1981, compared to the 97 percent figure already mentioned for agricultural labor. Growth in labor productivity in Japan, Europe and Australia was well above that experienced for the United States, while Canadian productivity growth was slightly higher. In addition, economic growth rates in the middle-income countries during that period would indicate rapid agricultural labor productivity increases in these countries as well.

Is the U.S. Competitive in World Markets?

Despite our lack of current data on U.S. comparative advantage in recent years, we can identify other factors that have influenced the ability of the U.S. to compete in world markets. These include the following: the slowdown in world commodity trade, the appreciation of the U.S. dollar, policy decisions by competing nations, and the impacts of United States domestic commodity policies on trade.

Reduced World Import Demand

The global demand for agricultural imports in recent years fell because of the global recession and debt problems by some major importing countries. For example, coarse grain imports declined from 109 MMT in 1980 to 91 MMT in 1983. Similarly soybean imports fell from 29 MMT in 1981 to 26 MMT in 1983. Global wheat imports fell from 102 MMT in 1981 to 99 MMT in 1982, but recovered to 103 MMT in 1983.

U.S. exports have, however, fallen disproportionately to the decline in global import levels. For coarse grains, U.S. exports fell from 76 mmt to 51 mmt and our export market share fell from 70 percent in 1980 to 56 percent in 1983. For soybeans, the U.S. share declined from 87 percent in 1981 and 1982 to 77 percent in 1983, as our export volume declined by nearly 5 mmt. For wheat, the U.S. share has continued to decline, to 38 percent in 1983 from 47 percent in 1981, a decline of over 8 mmt, despite the recovery in total world wheat trade.

A reduction in world import demand alone can change the market shares of various exporters because they do not all react the same way to a change in world market prices. Generally, countries with high and rigid price supports and large domestic use relative to exports will be faced with a more rapid reduction of exports than will countries that have low flexible supports and which depend heavily upon world markets. This partially explains both the rapid growth in U.S. market share in the 1970's and the drop in U.S. market share in recent years.

For wheat we estimate that the affect of the global recession was to lower U.S. exports by 2.5 million tons. For coarse grains, the difference between actual and trend foreign income growth resulted in a 7.1 million ton reduction from expectations over the 1980/81 to 1982/83 period, while soybeans and meal exports were 600 thousand tons lower.

Recent estimates by USDA's Economic Research Service suggest that for wheat during the 1980/81 to 1982/83 period, foreign debt problems reduced U.S. wheat exports by about three million tons. U.S. coarse grains exports were reduced nearly 12 million tons, while U.S. soybean and soybean meal exports were reduced almost one million tons.

Appreciation of the U.S. Dollar

The sharp appreciation of the U.S. dollar since 1980 (see Table 7) has also reduced the U.S. share of world exports, although not as much as might be suggested by viewing only the nominal changes in exchange rates.* Because U.S. prices rose in importers' currencies, U.S. goods became relatively more expensive than otherwise would have been the case, and at a time when many importing countries were already suffering from recession and debt problems. They reacted by reducing imports of U.S. goods, and turning to other producers whose currencies appreciated relatively less than did the dollar, or who could reduce commodity prices below U.S. commodity price levels because of the rigidity of our commodity loan rates.

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* In the case of U.S. soybeans, sales to Europe declined because the rising value of the dollar caused real costs to importers to rise 35 percent. In the case of wheat, however, inflation in the wheat importing countries have largely offset the rising value of the dollar, such that real costs to importers have actually declined by about 17 percent since 1979. Obviously, importer costs are still higher meaning that total imports are probably lower than would have been the case had the dollar not risen, The point here is that the dollar's impact varies depending on circumstances in different markets and regions and therefore affects our export commodities in varying degrees.

Where the dollar has also had a significant impact is with competing export countries. The appreciation of the dollar vis-a-vis the currencies of other exporters had the effect of increasing prices received by producers in the other exporting countries. Production in those countries was thus encouraged relative to the United States, and use was discouraged; hence, the other nations' supplies rose to meet the rechanneled demand.

Policies in the United States

The U.S. price support programs set a floor under domestic and world market prices for wheat, coarse grains and soybeans. When world market prices fall to the U.S. loan rate, the U.S. withdraws sufficient quantities from the export market to support world prices at our loan rate. The U.S. absorbs excess stocks by taking grain under loan. Then, when stocks become excessive, acreage reduction programs are implemented for U.S. farmers. Thus, the U.S. reduces world market price risks to other exporters and bears the burden of stock and production adjustments, all at no cost to producers or taxpayers in other countries.

These are the same functions that Saudi Arabia has performed for the world oil market. Just as the Saudis have consistently lost market share, the U.S. will probably continue to lose market as long as prices are held up by support rates.

United States farm commodity programs have the perverse effect of taxing our exports when world markets are weak. In this regard it should be noted that since 1979, loan rates have increased 32 percent for wheat, 21 percent for corn, and 10 percent for cotton. It is the combined effect of these loan rate increases and the value of the dollar that has provided a protective price umbrella under which our competitors have expanded production and market shares.

Other programs provide implicit or explicit incentives to agricultural exports. Some export programs offer favorable loan terms and interest rates. Other indirect assistance to U.S. agricultural exports includes government-sponsored research and extension programs; soil and water conservation programs; transportation subsidies; below-market interest rates on certain credit programs; and favorable tax provisions.

Grain and Oilseed Export Policies of Major Competitors*

The major U.S. competitors in the grains and oilseeds markets also use pricing and export marketing policies which affect their competitive positions relative to the United States.

Canada

Canadian wheat and barley producers market their grain through the Canadian Wheat Board (CWB). The CWB does not directly influence world prices, but the system of guaranteed initial prices and price pooling reduces uncertainity and provides year-to-year price stability. Greater price certainty may have enhanced production. Producers can also voluntarily join the producer and government supported Western Grains Stabilization Program, which is an insurance program to protect producers against wide year-to-year changes in income. Canada has recently reformed a system of low fixed rail rates for grain which had slowed investment in rail transport equipment and led to shipping delays. The reforms should improve Canada's capability to ship grain but will probably lower producer prices slightly. Overall, the assistance Canadian grain producers do receive tends to be important primarily for stabilizing producer prices with very little long term impact on the price level.

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* It is important to note that this section treats only those policies pertaining to grains and oilseeds. Competitor policies affecting other commodities--livestock products, for example--can be quite different from those described for grains and oilseeds.

Australia

Australian wheat producers market their grain through the Australian Wheat Board (AWB), and are protected from sharp year-to-year drops in world market prices by price guarantees. Australia has recently revised the formulas under which its initial payments are set to allow the minimum price to reflect price declines in the world market more quickly. This may mean slightly more price variability for Australian wheat producers. Australian barley producers export through state marketing boards which perform a function similar to the AWB. As in Canada, the primary objective of Australian grain policy is to reduce interannual income variability rather than provide long term price support.

Argentina

Argentina competes with the United States in three major agricultural markets—wheat, corn and soybeans. Export taxes lower the prices Argentine producers receive for these commodities. As of March 1985, the tax was 18 percent on wheat, 25 percent on corn and soybeans and 12 percent on soybean meal and oil. In addition, exporters are required to convert their dollar earnings to pesos at about 70 percent of the market rate for the dollar. This lowers producer returns even further. The differential export tax rates on soybeans and soybean products has stimulated Argentine exports of the processed products.

Brazil

The principal objective of the government has been to assure adequate domestic supplies of soybeans at reasonable prices, expand domestic crushing capacity, and to increase export earnings of the processed products--soybean meal and oil. This has been accomplished through subsidies to the processing industry and favorable export financing for processed products, as well as export taxes on soybeans and export quotas on soybeans and products. It is likely that this policy has depressed farm prices for soybeans, reducing production below levels that would otherwise have been realized. The recent discontinuation of quotas will probably increase production and export of soybeans, while meal and oil exports will likely fall.

Thailand

Thai export controls, which once were an impediment to the expansion of Thai corn exports, were removed in 1981. As a result, Thai corn exports and export earnings have increased. For rice, Thailand has used policies in the past 35 years which have restricted Thai rice exports. These include rice reserve requirements for exporters, export taxes, an *ad valorem* tax and a specific tax known as a rice premium which can fluctuate with the level of world prices. Since 1982, the reserve requirements have been abolished, export taxes and the rice premium have been reduced and there are proposals to abolish the *ad valorem* tax. As a result of these recent policy changes, Thai rice exports have increased, but because of lower world rice prices, Thai rice export earnings and returns to producers have not increased.

European Community

Producer prices in the European Community are not directly linked to the world market. Variable levies on imports completely insulate high domestic EC support prices from changes in world prices. The high internal prices have stimulated production and discouraged consumption of many commodities, leading to large, burdensome surplus stocks. The stocks are sold into world markets, and exporters receive a subsidy equal to the difference between internal prices and world market prices. Recent growth in EC productivity and farm consolidation have aggravated the surplus situation, and pushed the potential costs of this policy upwards. On the other side, however, the U.S. dollar appreciation and our above-market-clearing loan rates have helped to relieve EC budget pressures.

Among competitors in world grain markets, the policies of the European Community have had the most significant impact in reducing U.S. wheat and corn exports and reducing world prices of these commodities by changing the EC from a net importer to a net exporter. At the same time, however, these policies have probably resulted in a net increase in world soybean demand. The recent acceptance of Spain and Portugal into the Community will spread the revenues available for agricultural price supports even more thinly across countries and commodities. Effective EC support for agriculture is likely to decline in the next decade.

CONCLUSIONS

Many observers argue that U.S. agricultural commodity export volume, value, and market share have fallen because the United States has lost both its ability to compete and its comparative advantage. Our analysis suggests that the United States is a low-cost producer of wheat, feedgrains and soybeans, but that appreciation of the dollar and the rigidity of U.S. commodity loan rates have increased the costs to importers of U.S. farm products relative to those of other producers.

Analysis of changes in average productivity since 1970 1981 suggests that:

(a) U.S. agriculture increased output per unit of input in all major agricultural input categories compared to the rest of the world.

(b) U.S. agricultural labor productivity increased compared to the rest of the U.S. economy.

(c) U.S. non-agricultural labor productivity fell compared to the rest of the world.

These three conclusions suggest that U.S. agriculture increased its comparative advantage over the last decade.

The ability to compete in world markets depends not only on comparative advantage, but on other factors as well. The global recession, developing-country debt problems, the appreciation of the U.S. dollar, policies of competing nations, and especially U.S. farm policies have reduced global agricultural trade volume, the U.S. market share in that trade, and U.S. agricultural prices. U.S. competitors have benefited from our sheltering of prices for agricultural goods. Because of the structure of U.S. agriculture and farm policies, U.S. exports are more sensitive to world price changes than are exports of most other countries. Whereas in the late seventies economic and policy developments favored the U.S. in world agricultural trade, in the eighties these same factors working in reverse caused a reduction in the U.S. market share.

Mr. Chairman, that concludes my testimony. Mr. Smith and I will address any questions that Members of the Subcommittee may have.

(Attachments follow:)

Table 1: Market shares of major U.S. agricultural exports, 1979/80–83/84

Marketing years	World exports	Export shares U.S.	Export shares Can.	Export shares Arg.	Export shares OC 1/	Import shares DCI 2/	Import shares LDCI 3/	Import shares USSR	Import shares Eastern Europe
Coarse-grains: 5/	Mmt.					Pct.			
1979	99.5	72	4	5	10	41	28	14	12
1980	108.8	70	6	14	8	38	31	24	10
1981	97.9	59	7	10	12	41	28	21	6
1982	91.1	54	7	12	6	41	35	11	5
1983 4/	90.7	56	6	11	10	42	36	12	4

	World exports	Export shares U.S.	Export shares Can.	Export shares Arg.	Export shares EC	Export shares Aus. 6/	Import shares DCI 2/	Import shares LDCI 3/	Import shares USSR	Import shares Eastern Europe
Wheat: 5/	Mmt					Pct.				
1979	86.0	44	17	6	12	17	15	50	14	7
1980	94.1	44	18	4	16	11	14	43	17	6
1981	101.6	47	17	4	15	11	13	44	19	6
1982	98.6	42	22	8	16	8	12	44	21	5
1983 4/	103.2	38	21	9	16	11	11	49	20	4

	World exports	Export shares U.S.	Export shares Brazil	Export shares Arg.	Import shares EC 6/	Import shares Japan	Import shares USSR	Import shares Spain
Soy-beans: 7/	Mmt				Pct.			
1979	28.3	84	4	8	46	15	5	11
1980	25.3	78	7	11	40	17	6	11
1981	29.3	86	3	6	42	15	5	11
1982	28.6	86	5	5	41	17	4	11
1983 4/	26.0	77	6	11	35	18	4	10

	World exports	Export shares U.S.	Export shares Brazil	Export shares Arg.	Export shares EC 6/	Import shares EC 6/	Import shares Japan	Import shares USSR	Import shares Spain
Soybean Meal: 7/	Mmt					Pct.			
1979	17.3	42	31	2	22	56	2	2	22
1980	18.9	33	41	2	20	50	2	5	23
1981	20.7	30	40	4	21	57	1	5	16
1982	23.3	28	35	7	23	51	1	12	14
1983 4/	20.8	24	37	10	20	54	1	3	17

1/ Other Competitors: Australia, Republic of South Africa and Thailand.
2/ Developed Country Importers: Japan and Western Europe.
3/ Less Developed Country Importers.
4/ Preliminary.
5/ Excludes intra-EC trade.
6/ European Community-10.
7/ Includes intra-EC trade.

Source: ERS

Table 2: Indices of average products for selected agricultural inputs for the United States and the Rest-of-the-World, 1970 - 1981

	Land		Machinery		Fertilizer		Labor	
	U.S. 1/ 3/	ROW 2/	U.S. 1/	ROW 2/ 4/	U.S. 1/ 5/	ROW 2/	U.S. 1/	ROW 2/
Year	———1970 = 100———							
1970	100	100	100	100	100	100	100	100
1971	111.1	101.4	106.7	99.2	101.0	96.0	112.7	6/
1972	114.6	99.5	107.0	95.0	95.7	88.0	118.1	6/
1973	115.5	106.8	105.6	98.8	93.8	86.6	123.3	6/
1974	111.6	104.8	96.2	93.2	86.2	85.9	119.7	6/
1975	118.0	105.0	100.8	89.6	102.3	84.9	132.2	104.0
1976	120.6	115.7	99.0	87.5	91.9	83.6	141.2	113.9
1977	122.2	116.1	101.5	85.3	91.2	79.0	150.1	114.6
1978	127.1	128.2	101.5	87.7	88.7	78.6	164.4	119.6
1979	135.7	131.0	105.3	82.6	85.9	71.9	179.2	116.8
1980	124.6	121.3	100.6	79.6	78.4	69.2	168.1	115.4
1981	142.8	122.0	116.3	79.5	89.0	68.1	196.8	117.5

1/ U.S. data from Agricultural Statistics.

2/ Rest-of-the-World (ROW) data from FAO Production Yearbooks.

3/ Agricultural Real Estate.

4/ Tractors only.

5/ Agricultural Chemicals.

6/ Not available for these years since table not reported prior to 1976 Yearbook.

Table 3: Indices of average product for labor, agricultural and non-agricultural, United States

Year	Agricultural 1/	Non-Agricultural 2/
	1970 = 100	
1970	100.0	100.0
1971	112.7	103.3
1972	118.1	107.1
1973	123.3	109.8
1974	119.7	107.0
1975	132.2	109.1
1976	141.2	112.7
1977	150.1	115.2
1978	164.4	115.9
1979	179.2	114.2
1980	168.1	113.4
1981	196.8	115.6

1/ Agricultural Statistics
2/ Economic Report of the President, 1984.

Table 4: National productivity indices for selected countries (GDP per Employed Person)

Year	United States	Canada	Japan	Europe	Australia	New Zealand	South Africa
			1970 = 100				
1970	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1971	102.9	105.1	104.0	103.9	103.2	102.6	103.3
1972	105.5	108.2	113.1	107.6	105.3	106.3	105.4
1973	107.7	110.9	120.1	112.2	108.9	109.2	107.7
1974	104.8	110.6	119.3	113.9	108.1	111.2	111.4
1975	105.2	110.0	122.4	114.2	111.0	108.9	112.2
1976	107.2	114.5	127.7	119.5	113.4	109.3	108.8
1977	109.1	115.0	132.6	122.0	113.4	102.9	108.6
1978	109.8	115.5	137.6	125.3	117.8	104.3	130.8
1979	109.4	114.6	142.8	128.5	120.2	101.1	133.9
1980	108.5	112.9	148.2	130.0	119.0	103.9	140.3
1981	110.1	113.5	153.2	130.9	121.3	107.3	143.5

Source: Wharton Econometric Forecasting Associates.

Table 5: Regional variable costs of production estimates for wheat, corn, and soybeans, 1980-1982

	1980	1981	1982
	—Dollars per bushel—		
Wheat: National Average	1.52	1.61	1.55
Hard Red Winter: National	1.32	1.69	1.49
Central Plains	1.06	1.54	1.25
Northern Plains	1.44	1.20	1.23
Southern Plains	1.79	2.12	1.95
Southwest	1.43	1.48	1.69
Soft Red Winter: National	1.66	1.80	1.96
Lake States/Corn Belt	1.50	1.68	1.78
Northeast	2.09	2.39	2.26
Southeast	2.02	1.93	2.11
White	1.12	1.21	1.36
Hard Red Spring	1.94	1.47	1.35
Corn: National Average	1.29	1.20	1.16
Lake States/Corn Belt	1.18	1.12	1.09
Northeast	1.49	1.36	1.32
Northern Plains	1.36	1.23	1.26
Southeast	2.33	1.94	1.47
Southwest	1.54	1.44	1.60
Soybeans: National Average	2.06	2.01	1.83
Delta	3.77	3.46	2.66
Lake States/Corn Belt	1.42	1.51	1.46
Northern Plains	1.56	1.28	1.36
Southeast	4.63	3.39	2.90

Source: *Economic Indicators of the Farm Sector: Costs of Production, 1982.* Economic Research Service, U.S. Dept. of Agr.

Table 6: Average variable production costs per unit, selected countries
—U.S. dollars per bushel—

	1980	1981	1982	1980-82 average
Wheat				
United States 1/	1.52	1.61	1.55	1.56
Corn Belt/Lake	1.50	1.68	1.78	1.65
North Plains	1.44	1.20	1.22	1.29
Central Plains	1.06	1.54	1.25	1.28
Canada (Sakatchewan)	1.29	1.31	1.24	1.28
Australia- (sample farm) 2/	1.47	2.45	2.25	2.06
Soybeans				
United States 1/	2.06	2.01	1.83	1.97
Corn Belt/Lake	1.42	1.51	1.46	1.46
Brazil (Southeast)	1.66	1.66	2.20	1.84
Argentina (Pergamino)	1.73	1.76	1.70	1.73
Corn				
United States 1/	1.29	1.20	1.16	1.22
Corn Belt/Lake	1.18	1.12	1.09	1.13
Argentina (Pergamino)	0.63	0.96	1.01	0.87

1/ National average, see Table 5.
2/ Sample farm; appears to be a national average.

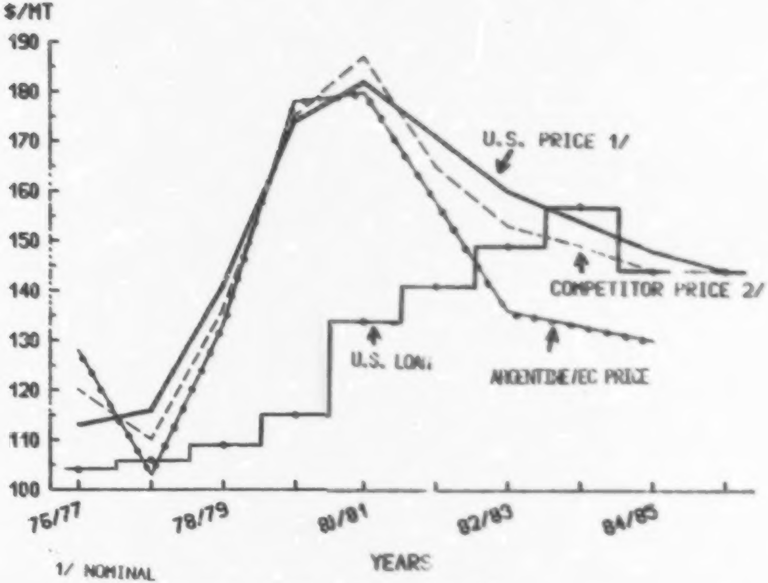
Table 7: Indices of the U.S. dollar exchange rate
foreign currency per U.S. dollar, 1980 = 100

	1980	1981	1982	1983	1984
NOMINAL					
MERM 1/	100.0	112.7	125.9	133.2	143.7
Argentina 2/	100.0	239.1	1408.7	5722.8	36765.8
Australia	100.0	98.9	111.4	126.1	129.5
Brazil 2/	100.0	176.7	340.6	1094.7	3506.0
Canada	100.0	102.6	105.1	105.1	111.1
Japan	100.0	97.3	109.8	104.8	104.8
REAL					
Argentina	100.0	129.1	304.7	287.9	276.5
Australia	100.0	99.5	107.0	113.6	117.1
Brazil	100.0	94.9	97.9	134.4	151.3
Canada	100.0	100.8	98.8	96.4	101.9
Japan	100.0	102.4	119.4	115.6	117.9

1/ International Monetary Fund's Multilateral Exchange Rate Model (MERM) Index.

2/ Nominal reflects rapid inflation in Brazil and Argentina.

U.S. WHEAT UNCOMPETITIVE IN WORLD MARKETS



1/ NOMINAL

2/ TRADE WEIGHTED AVERAGE EXPORT PRICES FOR CANADA, AUSTRALIA, ARGENTINA, AND EC

FOREIGN AGRICULTURAL SERVICE USDA

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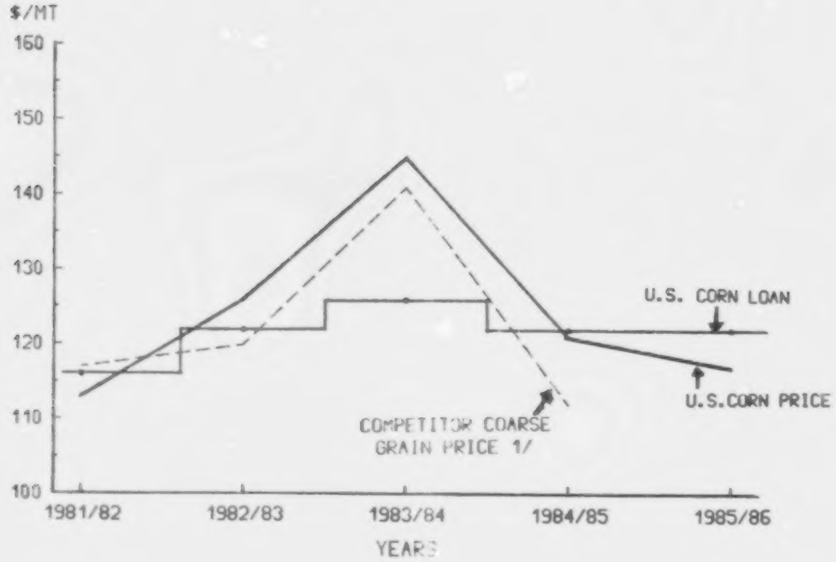
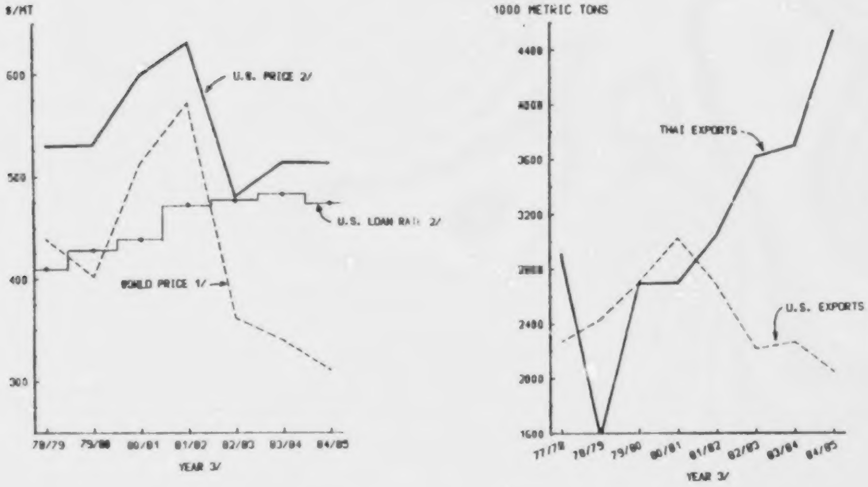
U.S. CORN UNCOMPETITIVE IN WORLD MARKETS



1/ REPRESENTATIVE COMPETITOR FEED GRAIN PRICES
IN CORN EQUIVALENT
FOREIGN AGRICULTURAL SERVICE USDA

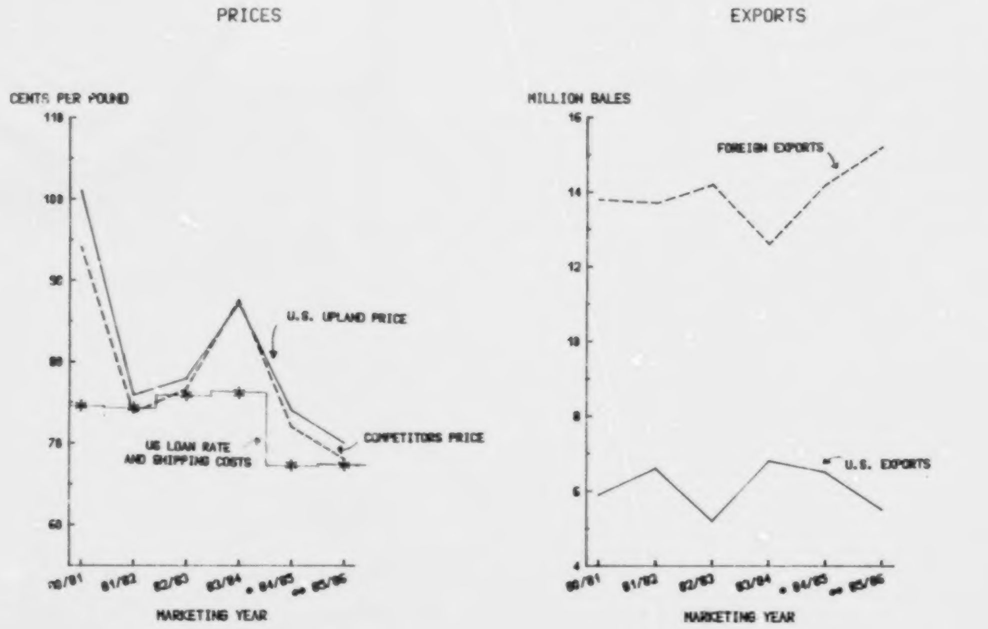
U.S. RICE UNCOMPETITIVE IN WORLD MARKETS



1/ THAI 100% B, U.S. #2/4% LONG GRAIN CIF ROTDAM
2/ U.S. LOAN RATE AND PRICE #2/4% LG CIF ROTDAM
(INCLUDING MILLING AND CIF COSTS)
3/ 1984/85 VALUES ARE PROJECTED

SOURCE: FOREIGN AGRICULTURAL
SERVICE USDA

U.S. COTTON'S POSITION IN WORLD MARKETS



* ESTIMATE
** FORECAST

COMPETITOR PRICES REPRESENT THE 'A' INDEX:
5 CHEAPEST OF 10 PRINCIPAL COUNTRIES QUOTATIONS

* ESTIMATE
** PROJECTED

SOURCE: FOREIGN AGRICULTURAL SERVICE/USDA

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U.S. AGRICULTURAL EXPORT ISSUES AND COMPETITIVENESS OF U.S. FARMERS IN WORLD MARKETS

as presented to

House Agriculture Subcommittee on
Department Operations, Research and Foreign Agriculture

by

Dr. Ray Daniel
Vice President and Managing Director
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April 16, 1985

U.S. AGRICULTURAL EXPORT ISSUES AND COMPETITIVENESS OF U.S. FARMERS IN WORLD MARKETS

INTRODUCTION

During the 1970s and early 1980s unprecedented changes occurred in the international markets for U.S. agricultural products. Exports have become a major source of growth for U.S. farm products, increasing from $7.8 billion in 1970 to a peak of $44 billion in 1981. The production from approximately one-third of U.S. cropland is now exported. However, since 1981, U.S. agricultural exports have declined to $37 billion. All major U.S. crops have experienced a drop in exports since 1980/81. These recent collapses in agricultural exports have raised concern about the competitiveness of U.S. farmers in world markets. For example, U.S. market share of coarse grains (feed grains) has dropped from 64% in the 1980/81 crop year to 60% in the 1982/83 to 1983/84 period. The U.S. market share of wheat trade has declined from 48% in 1981/82 to 38% during the current marketing year (Tables 1 and 2).

U.S. farm export programs and policies have, thus, come under considerable scrutiny and criticism. Much of the discontent over agricultural export policy deals with its competitiveness and government intervention. Farmers and legislators have argued that recent problems with farm exports have caused continual surplus production and weak farm prices. It is estimated that over $21 billion were spent in 1983 through USDA's programs in an effort to reduce commodity surpluses. Yet there remains excessive inventories of feed grains and the potential for record supplies of feed grains again in 1985 as farm export demand continues to weaken.

Discussions over a new 1985 Farm Bill have also centered around the potential of expanding exports. This dialogue over the future direction of agricultural programs is both healthy and beneficial, not only to the farm sector, but also to the consumer and legislative bodies since new four-year agricultural domestic and export policy programs will be enacted in 1985.

The purpose of this testimony is to continue to enhance the current debate by addressing the major issues facing agricultural exports and thus challenging policymakers to continue to seek the correct mixture of agricultural exports and domestic production. The choices should encompass programs that will enhance the marketing of U.S. agricultural products while still providing a protective net for U.S. farmers against major swings in the markets. The recent

Table 1
World Coarse Grain Exports
1980/81 to 1984/85[a]
(mmt)

	1980/81	1981/82	1982/83	1983/84[b]	1984/85[b]
Argentina	14.2	10.3	11.6	12.0	11.2
Canada	5.5	7.2	7.0	6.7	4.7
South Africa	4.1	4.7	2.3	0.1	0.2
Australia	2.3	3.4	0.9	4.6	4.3
Thailand	2.4	3.5	2.4	3.0	3.2
Subtotal	28.4	29.1	24.3	26.4	23.6
Others	11.0	11.4	13.3	8.7	11.2
Non-U.S.	39.4	40.5	37.6	35.1	34.8
U.S.	69.5	58.4	54.0	56.0	60.2
	======	======	======	======	======
World Total	109.0	98.9	91.6	91.5	95.0
U.S. Share, %	63.8	59.0	59.0	61.2	63.3

Source: World Grain Situation and Outlook USDA FAS November 1984

[a] October to September marketing year

[b] CE projections

Table 2
World Wheat Exports, 1980/81 to 1984/85[a]
(mmt)

	1980/81	1981/82	1982/83	1983/84[b]	1984/85[b]
Australia	10.6	11.0	8.1	11.6	14.7
Canada	17.0	17.6	21.2	21.8	17.8
EC-10	14.7	15.5	15.5	16.0	18.7
Argentina	3.9	4.3	7.5	9.6	7.5
Subtotal	46.2	48.4	52.3	59.0	58.7
Others	6.0	4.1	6.1	5.1	5.7
Non-U.S.	52.2	52.5	58.4	64.1	64.4
U.S.	41.9	48.8	39.9	38.9	39.6
World Total	94.1	101.3	98.3	103.0	104.0
U.S. Share	44.5	48.2	40.6	37.8	38.1

[a] [illegible]

collapse in export prices is the cause of many bankruptcies in farms that, during more normal situations, are solid, viable production units.

CURRENT SITUATION

The collapse of both real crop export and domestic prices and, subsequently, farm income since 1977 has had severe repercussions throughout agriculture. Real farm income has returned to near-1930 depression levels and real gross farm income is 16% below 1974 levels, even though government payments have increased to over $20 billion. Farm real estate assets in current dollars have dropped 16% or more since 1980. This depressed economic environment has severely damaged the viability of the agricultural sector. Unless farm income can be stabilized at a much higher level and at a much lower cost to the government there will be increased farm bankruptcies, a general collapse in rural farm economies, and widespread dissatisfaction with agricultural programs. This is especially true in states where no alternative sources of income are readily available.

COMPETITIVENESS OF U.S. FARMERS IN WORLD MARKETS

The recent collapse in U.S. export market share would indeed imply that the U.S. farmer's ability to compete in world trade has eroded during the past three to five years. The issue of whether the U.S. farmer has lost his competitive position in world trade has significant ramifications for the future of not only U.S. farmers, but also for rural America, especially the Midwest and major U.S. farm states.

The observed loss in market share and the recent doubling of wheat imports into the U.S. while the United States continues to carry high wheat inventories certainly implies that a major change has occurred in world agricultural trade and this change is reducing the ability of U.S. farmers to sell their products in world markets. Several sectors of government, agribusiness and even farm organizations have warned about a significant change in the competitive relationship of U.S. farmers compared to other major producers. The current evidence does not refute that claim.

We must therefore determine what factors have apparently reduced the competitiveness of U.S. farmers in world markets.

The major factors which impact the competitiveness of U.S. farmers in world markets are:

1. U.S. farm production costs versus competing countries
2. Barriers to trade
3. Value of the U.S. dollar
4. U.S. farm prices

The issue of whether one farmer in one state or country is competitive with another is usually determined by a comparison of production costs, assuming "free market" conditions. We were unable to obtain accurate measures of production costs from all U.S. competitors. But, we were able to obtain crop production cost estimates for Argentina and Canada. After adjusting for the differences in currencies, it would appear that both Argentina and Canada had lower farm production costs than the United States in 1984, **Tables 3 to 5**. The differences are less after adjusting for internal marketing costs, export taxes, and Ocean Freight. However, Canada appears to have lower wheat farm cost and higher wheat quality. Argentina has the lowest farm production costs for wheat, corn, and soybeans, but higher ocean transportation costs. Argentina also has an 18% export tax on wheat and a 25% export tax on corn and soybeans. After adjusting for all cost factors, the current high value of the U.S. dollar and farm costs, Argentina still has a cost advantage for wheat, corn, and soybeans on European Markets **(Table 6 and 8)**

The data suggests that Argentina's total farm production costs are $1.38/bushel lower for corn, $4.07/bushel lower for soybeans, and $2.17/bushel lower for wheat than U.S. farm production costs. Argentina data may not be as representative of farm production costs as are U.S. data but it is indicative of the significant differences in farm production costs between the two countries **(Table 3 and 4)**. The export tax in Argentina on grains, differences in domestic marketing costs and higher Argentinia ocean freight rates, however, reduce the differences in costs to $1.99/bushel for soybeans, 23¢/bushel for corn, and 92¢/bushel for wheat on European markets **(Table 6 and 8)**.

This data suggests that U.S. farmers may be losing their comparative advantage in world markets. Strong world trade barriers against U.S. farm commodities also continue to be a problem. For example, over 90% of all countries buying grain have either tariffs, import subsidies for their farm products, or import restrictions. Two good examples are the European Common Market and Japan, (Appendix A).

Table 3
ARGENTINE CROP PRODUCTION COSTS 1984
($/Bushel)

	CORN	WHEAT	SOYBEANS
	$/BU		
Seed	0.22	0.31	0.38
Chemicals	0.02	0.13	0.22
Fuel Cost	0.13	0.14	0.25
Harvesting	0.24	0.25	0.55
Labor	0.21	0.19	0.39
Insurance	0.07	0.09	0.20
Interest[1]	0.10	0.12	0.19
Subtotal	0.99	1.23	2.18
Farm & Machinery Cost	0.13	0.16	0.27
Taxes	0.05	0.03	0.08
Amortized Costs of Capital	0.14	0.19	0.26
Subtotal	1.31	1.61	2.79
Land Costs	0.25	0.26	0.43
Total Farm Costs	1.56	1.87	3.22
Marketing Costs	0.48	0.50	0.73
Total	2.04	2.37	3.95
Yield	63.0	34.2	37.2
Market Price[2]	2.02	2.48	4.37
Export Tax[3]	0.67	0.54	1.46
Total	2.69	3.02	5.83

[1] Excludes Land

[2] Export Price (FOB Argentina) 1985.2 (CE Estimates)

[3] Export Tax for Corn and Soybeans = 25%; Wheat = 18% of export price.

Source: U.S. Agricultural Attache, U.S. Embassy Argentina, 1984

Table 4
United States Grain and Soybean Production Costs, 1984
($/bushel)

	Corn	All Wheat	Soybeans
Seed	0.18	0.17	0.37
Fertilizer	0.45	0.49	0.30
Chemicals	0.16	0.07	0.60
Custom operations	0.05	0.13	0.13
Fuels and Lub.	0.16	0.32	0.39
Repairs	0.12	0.26	0.32
Drying	0.06	—	—
Water	—	0.01	—
Labor	0.13	0.31	0.54
Miscellaneous	—	0.01	.01
Sub-Total	1.31	1.77	2.66
General overhead	0.15	0.20	0.32
Taxes and Insurance	0.16	0.24	0.45
Interest	0.49	0.60	1.12
Operaing and other Capital	0.17	0.31	0.42
Sub-Total	2.28	3.12	4.97
Land	0.56	0.92	2.32
Yield[3]	111.5	35.8	28.5
Total[1]	2.84	4.04	7.29
Farm Price[2]	2.79	3.31	5.93

[1] Excludes Management Cost

[2] 1984.2

[3] Yields for wheat in 1984 was four bushels above trend due to excellent wheat.

Table 5
U.S. and Canadian Wheat Productions Costs,
1984

	United States		Canada
	All Wheat	Hard Red Spring Wheat[1]	Spring Wheat[2]
Seed	0.17	0.24	0.25
Fertilizer	0.49	0.45	0.46
Chemicals	0.07	0.15	0.35
Custom Operations	0.13	0.06	NA
Fuels and Lub.	0.32	0.34	0.28
Repairs	0.26	0.36	0.22
Water	0.01	—	—
Labor	0.31	0.34	CB
Miscellaneous[3]	0.01	—	0.24
Sub-Total	1.77	1.94	1.80
General Overhead	0.20	0.26	0.76
Taxes and Insurance	0.24	0.29	0.15
Interest	0.60	0.82	CB
Operating and Other Capital[4]	0.31	0.41	0.80
Sub-Total	3.12	3.72	3.51
Land	0.92	1.25	1.25[5]
Total[6]	4.04	4.97	4.76
Farm Price[7]	3.31	3.68	3.61
Yield[8]	35.8	28.1	26.8

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[1] North Dakota and South Dakota

[2] Saskatchewan

[3] Misc. in Canada includes utilities, taxes, hired labor, operaing interest etc.

[4] In Canada represents operator living allowance

[5] Allocated return to land assumed same for U.S. and Canada, since not available for Canada

[6] Excludes management cost

[7] U.S. farm price all wheat and Spring wheat. Min. 1985, 2 estimates ; final payment to farm estimated for 1985 in Canada

[8] All wheat yield was four bushels above trend in 1984 due to excellent weather.

Table 6
Wheat Production, Distribution Freight, and other Costs Landed in Rotterdam By Country, 1984

		Argentina	United States[1]	Canada[2]
Farm Costs				
Cost (Ex. Land)		1.61	3.12	3.51
Land		0.26	.92	1.25[2]
Total		1.87	4.04	4.76
Other Internal Costs[3]		0.50	0.14	0.31
Export Taxes		0.54	—	—
Ocean Freight		0.65	0.28	0.23
Total		3.54	4.46	5.30
Wheat Prices:				
Rotterdam	1984.2	4.42	4.43	5.37
	1985.2	3.67	4.18	5.15

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[1] All wheat, see Table 5 for other data.

[2] Canada produces a higher value wheat (13.5% protein)

[3] Land cost is not available for Saskatchewan, useu North Dakota Estimate.

[4] Marketing costs in Argentina; U.S. Marketing costs estimated during the average difference between K.C. Hard Red winter wheat price and Gulf Price for 1981-1984, Canadian Marketing costs from farm to Thunder Bay.

Table 7

World Grain and Soybean Prices and Freight Rates for Selected Countries 1984 and 1985

($/bu)

	Corn		Wheat		Soybeans	
	1984.2	1985.2^F	1984.2	1985.2^F	1984.2	1985.2^F
Port (F.O.B.)						
Argentina	3.50	2.69	3.76	3.02	7.79	5.83
United States	3.68	3.02	4.12	3.90	8.14	6.20
Canada	*	*	5.11	4.92	*	*
Ocean Freight Rate						
Argentina	0.62	0.58	0.66	0.65	0.66	0.65
United States	0.29	0.27	0.31	0.28	0.31	0.28
Canada	0.24	0.22	0.26	0.23	0.26	0.23
Rottendam						
Argentina	4.12	3.27	4.42	3.67	8.45	6.48
United States	3.97	3.38	4.43	4.18	8.45	6.48
Canada	*	*	5.37	5.15	*	*

F=CE Forecast

Table 8
Comparison of Farm, Marketing, and Ocean Freight Costs
for Corn and Soybeans in Argentina and the United States, 1984
Delivered Rotterdam

	United States		Argentina	
	Corn	Soybeans	Corn	Soybeans
Farm Cost (excl land)	2.28	4.97	1.31	2.79
Total Farm Costs	2.84	7.29	1.56	3.22
Domestic Marketing[1]	0.43	0.43	0.48	0.73
Export Tax	—	—	0.67	1.46
Ocean Freight[2]	0.29	0.31	0.62	0.56
Total	3.56	8.06	3.33	6.07
Total Differences:				
Actual	+0.23	+1.99		
Percent	+7	+33		

[1] U.S. domestic marketing was approximated using the average difference between Omaha and Gulf corn prices and Central Illinois and Gulf soybean prices.

[2] Ocean freight rate from country of origin to Rotterdam.

Another significant factor reducing U.S. competitiveness in world markets has been U.S. government intervention in specific markets. The Soviet grain embargo reduced U.S. market share of U.S.S.R. grain imports from a 70% average in 1976 to 1978 to less than 40% in 1983. Similar embargos have hurt U.S. farmers by making them an unreliable supplier and stimulating production in other countries, **Figure 1.**

Long-term trade agreements by non-U.S. exporting countries with major grain importers have also reduced the competitiveness of U.S. farmers, who are prevented from using similar marketing agreements.

However, the single most dramatic change which has occurred since 1979 has been an explosion in the value of the U.S. dollar. For example, the value of the U.S. dollar in countries where corn is sold has increased by approximately 150% since 1979. The value of the U.S. dollar in countries where soybeans and wheat are sold has increased by at least 60%. When comparing the dollar relative to the value of one of our new emerging competitors—Argentina—we find that the ratio of the Argentinian peso to the U.S. dollar has more than doubled since the 1979-81 period (**Figures 2 to 4**). U.S. interest rates also exploded to record levels during this period. Even after the recent decline in interest rates, real interest rates continue to remain above pre-1979 levels.

However, farm corn, wheat, cotton and soybean prices have remained relatively flat and have recently declined from 1980/81 levels. Real farm prices (1972$) have collapsed to pre-1972 levels, **Figures 9 to 16.**

In conclusion, it appears that U.S. farmers have indeed become less competitive in world markets. But, the problem has not been increases in U.S. farm commodity prices, since real farm prices (1972$) have actually collapsed to pre-1972 levels. The major contributing factors to the loss of U.S. farmers' market share in world trade have been record increases in the value of the U.S. dollar, high real interest rates, government trade barriers, U.S. government embargos of agricultural shipments into major markets, and higher farm input costs after adjusting for the difference in currencies.

AGRICULTURAL EXPORT POLICIES IN THE 1980S

Farm export programs in the 1980s need to become more compatible with the current realities of world grain trade. This is especially true in the grain sector which has been

Figure 1

USSR IMPORTS OF WHEAT AND COARSE GRAINS

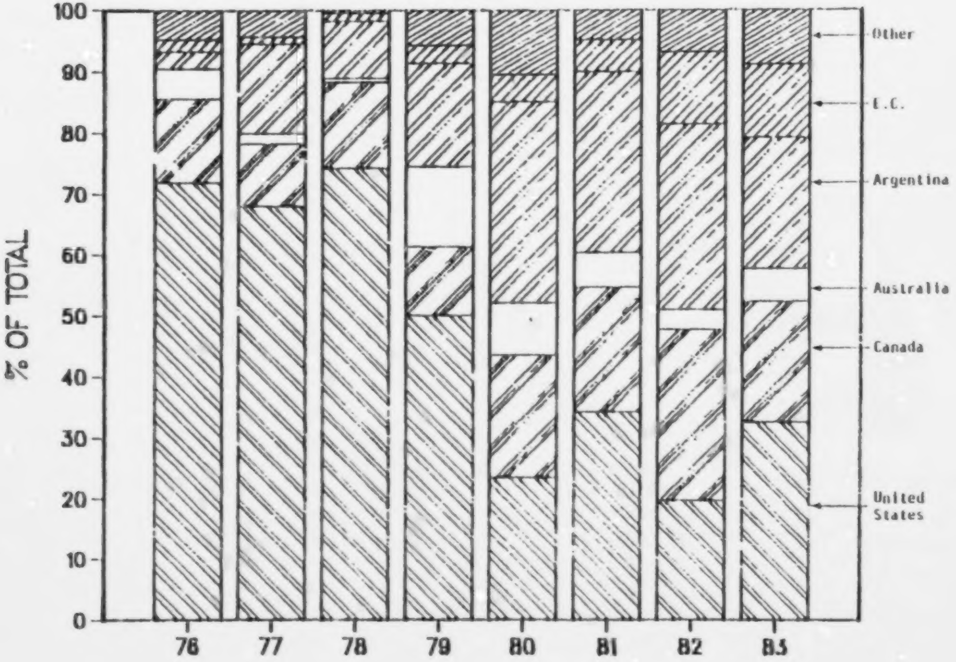
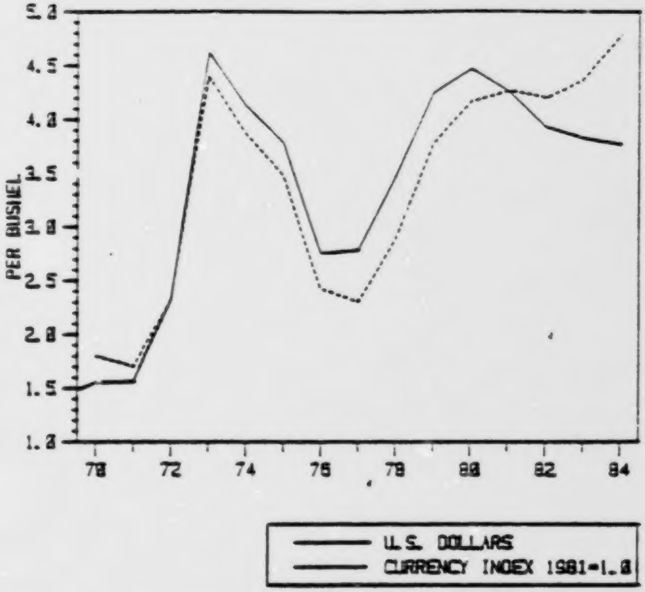


Figure 2

WHEAT PRICE: U.S. AND TRADE-WEIGHTED
(KANSAS CITY)



TRADE WEIGHTED VALUE OF THE DOLLAR: WHEAT

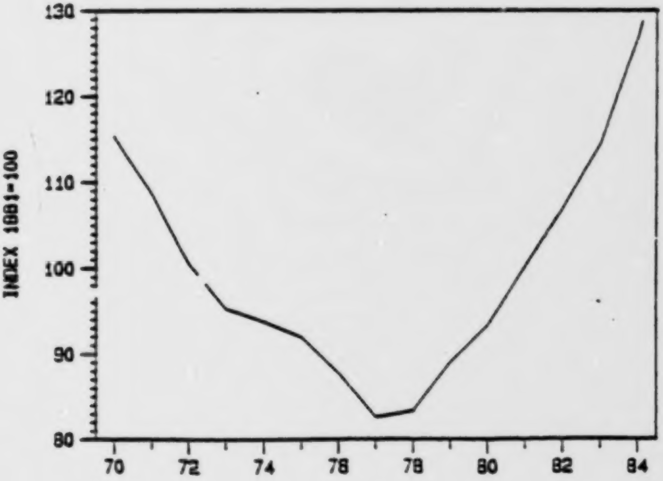
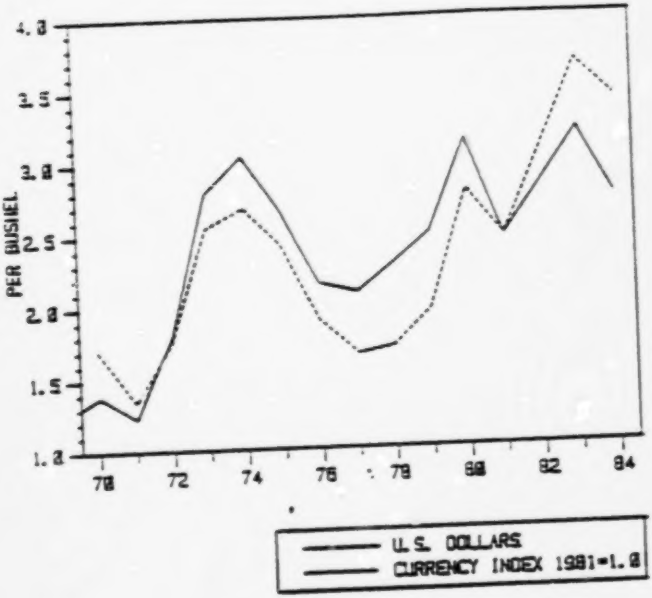


Figure 3

CORN PRICE: U.S. AND TRADE-WEIGHTED
(OMAHA)



TRADE WEIGHTED VALUE OF THE DOLLAR: CORN

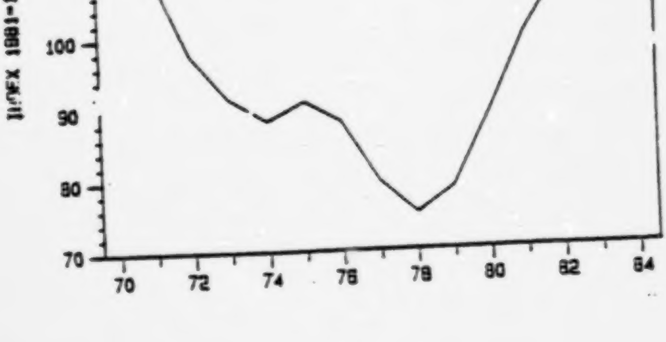


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Figure 4
TRADE WEIGHTED VALUE OF THE DOLLAR: SOYBEANS

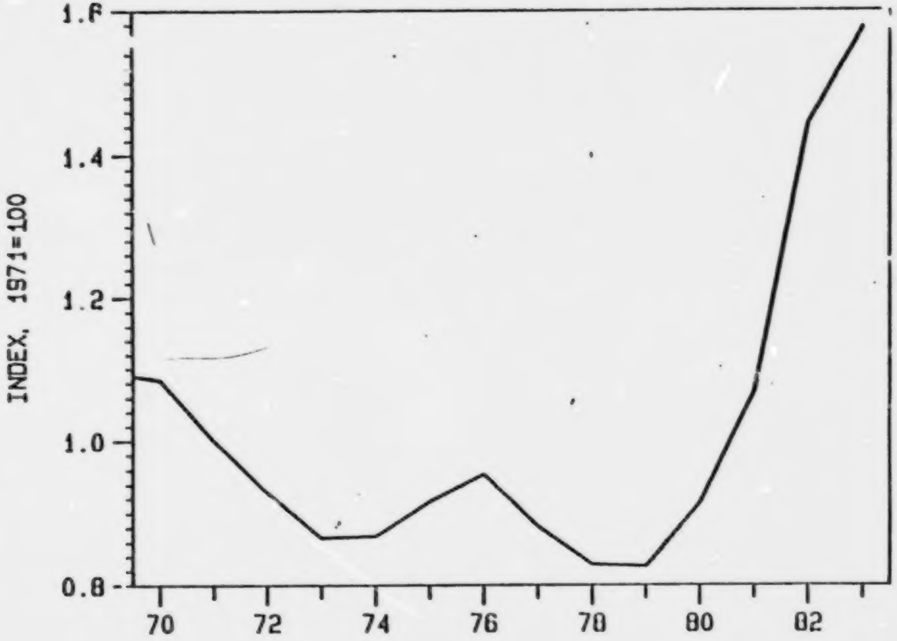


Figure 5

U.S. DOLLAR VS. ARGENTINA PESO, PESO/U.S.$
ADJUSTED BY RELATIVE INFLATION

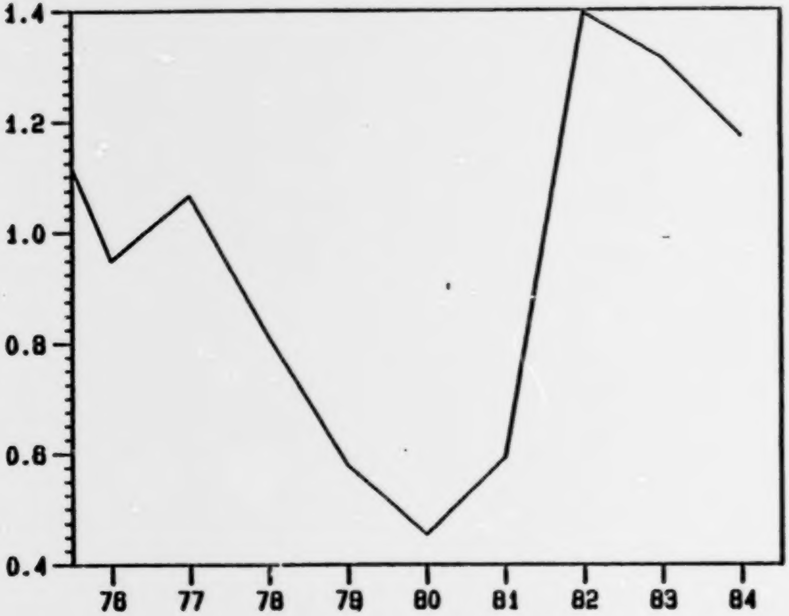


Figure 6

TRADE WEIGHTED NOMINAL VALUE OF THE DOLLAR: CORN

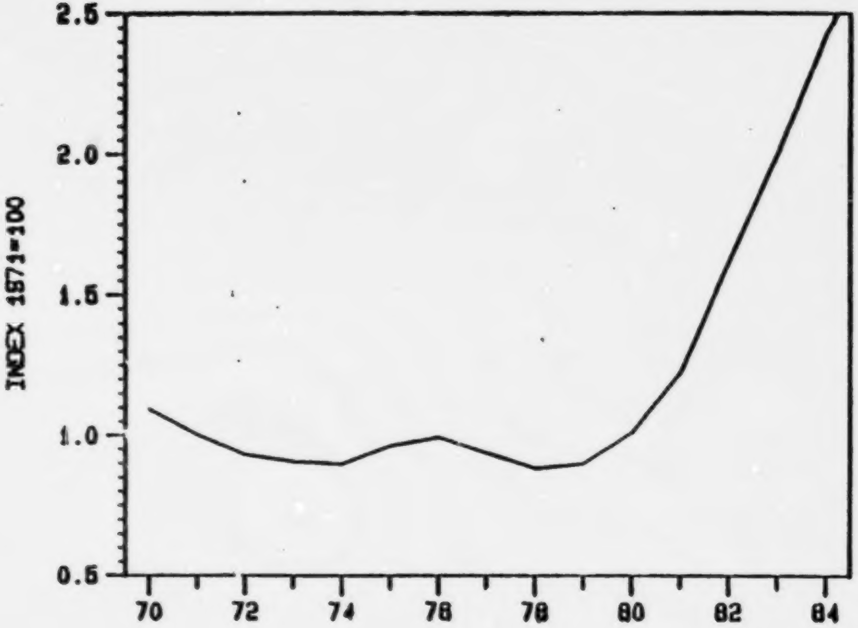


Figure 7
REAL EXCHANGE RATES VS. WORLD IMPORTS
COARSE GRAIN

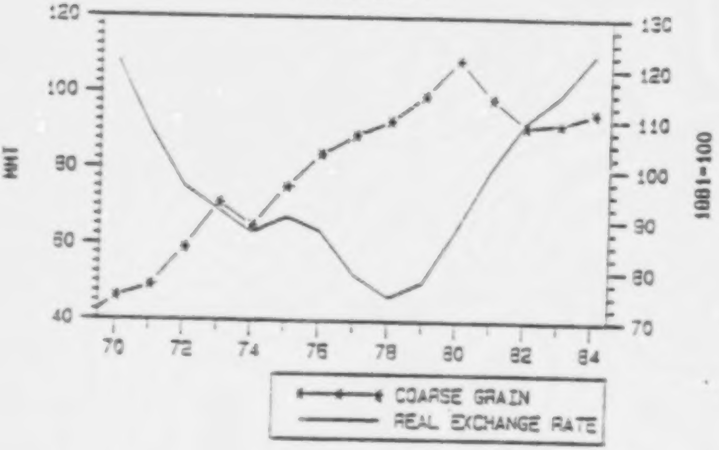
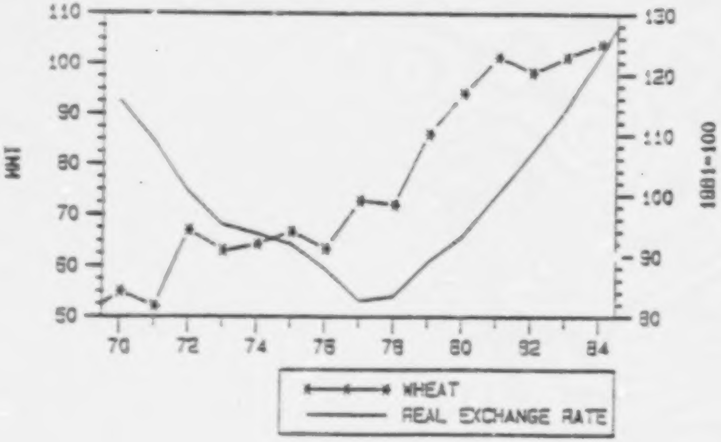


Figure 8
REAL EXCHANGE RATES VS. WORLD IMPORTS
WHEAT



characterized by more periods of crop surpluses, low prices, and acreage reduction programs, than by periods of balanced supply and demand with no government intervention. The Chase Econometrics outlook for the decade ahead indicates that world economic recessions, balance of trade problems, the high value of the U.S. dollar, and high real interest rates will persist, thus slowing world grain trade to less than one-half the rate experienced in the 1970s. Therefore, grain surpluses are projected to continue and subsequent grain acreage withdrawal programs will need to remain in effect.

Future agricultural export programs should also recognize that a "free market" for grains is no longer a reality due to grain embargos, long-term trade agreements by competitors, competing government import levies and restrictions, cargo preference requirements, and other noncompetitive market restrictions of governments throughout the world. U.S. farmers would welcome actual free markets where producers were not penalized by market restrictions, the high value of the dollar, and government intervention. However, this current noncompetitive structure of world grain trade requires that the United States must recognize the need for the government to assist U.S. farmers and agribusinesses in their struggle against institutions and barriers which foster constraints to trade, low foreign subsidized commodity prices and, subsequently, low U.S. farm and agribusiness income.

In addition, the U.S. farmer has become non-price competitive in world markets because the record high value of the U.S. dollar adds $1.00/bu to the U.S. farm price of wheat, 72¢/bu to the price of corn, and $2.00/bu to the price of soybeans (Figures 2 to 4). Concurrently, present agricultural legislation is not necessarily equitable for all producers; by supporting market prices, current programs reward farmers who continue to expand production while penalizing farmers who cooperate by participating in agricultural programs.

All of the above factors must be dealt with in the development of a consistent farm export policy. The bottom line is that every effort should be made to stimulate new programs which enhance farm income.

GOALS AND OBJECTIVES OF U.S. AGRICULTURAL EXPORT PROGRAMS

Farm export programs should be developed to address the new world agricultural environment more effectively. The specific goals and objectives of new agricultural export programs should be the following:

1. To improve farm income

2. To expand and enhance U.S. grain trade through joint efforts of farmers, government agencies, agribusinesses, input suppliers, and the grain merchants.

3. To balance U.S. wheat and grain production with domestic and world demand, thus reducing U.S. grain surpluses.

4. To maintain U.S. grain prices at levels which equalize the effect of government subsidies paid to farmers in each competing country.

5. When U.S. supply management programs are necessary, they should be equitable to all U.S. grain farmers and based on more recent production levels.

6. Production management programs, when needed, should include more effective control over production, not just acreage.

7. Participation in production management programs should be more oriented toward long-term stability and less toward short-term adjustments which create instability in world grain markets.

8. Export grain programs should provide income security to farmers during times of unexpected increases in grain inventories which depress prices.

9. The cost of export programs should be borne more by the sectors receiving the largest program benefits (i.e., grain producers, agribusinesses and consumers). Government program costs should be minimized.

10. Adequate grain reserves should be maintained to protect domestic and export customers against droughts and other crop failures.

11. U.S. Government export programs should also be sensitive to the impact of programs on the future structure of agribusinesses, farmers, and rural communities. Program changes do significantly impact ownership, size, and regional growth.

THE USE OF LOWER U.S. FARM PRICES TO STIMULATE AGRICULTURAL EXPORTS AND FARM INCOME

The most important single export market parameter governing the benefits of different export programs to farmers is the price elasticity of demand for exports. The magnitude of the elasticity of demand varies considerably from situation to situation and its value is subject to much misinterpretation. Nonetheless, sufficient concensus is now emerging about the range of elasticity estimates.

The fundamental cornerstone of U.S. farm export policy has been based upon the assumption that the aggregate demand for U.S. farm products is inelastic. Recent research continues to support the contention that the short-term (1 to 2 years) and intermediate term (2 to 4 years) is inelastic for major U.S. grains. The longer run (5+ years) appears to be elastic.

Therefore, a decline in crop prices will reduce farm total revenues for at least four years before the price decline is offset by higher volume exports. The current financial crisis in agriculture appears to limit the flexibility of U.S. farmers to sustain a four-year decline in total revenues.

Therefore, dropping U.S. farm prices in world markets would only reduce U.S. farm income since total dollar exports would decline even through additional tonnage was sold at the lower price. The decline in farm income would have to be offset by increased government subsidies or U.S. farmers would continue to go bankrupt. Since other countries are willing to support their farmers, it would appear that the major adjustment in world agriculture to lower U.S. farm prices would be a decline in U.S. farmers.

AGRICULTURAL EXPORT STIMULATION PROGRAMS

Farmers and economists strongly support efforts to stimulate stable growth in the export demand for U.S. farm products. Efforts that enhance the movement of U.S. farm products at prices which provide for potential growth in U.S. agriculture should be aggressively pursued.

The United States must become more aggressive and innovative in marketing U.S. farm products. The concept of free markets as the solution to farm surpluses is one which has always had great appeal, however, real world trade in agricultural commodities is clouded by protectionist policies, fiscal policies, other government constraints, and the high value of the U.S. dollar.

For example, U.S.S.R., Canada, and other countries have made several long-term trade agreements, the European Community subsidizes exports, and many countries utilize government agencies to purchase and/or sell agricultural products, thus reducing the functioning of a free market system. Currently, as much as 95%, or more, of all grains are either bought or sold through government agencies.

Specific types of U.S. government strategies which could be undertaken to enhance agricultural exports are:

Increase the use of export credits, particularly to countries where U.S. market share has been eroded due to competitors who subsidize exports or employ other non-free market incentives.

Market development programs that are currently underway through such agencies as U.S. Wheat Associates, Inc., the American Soybean Association, the U.S. Feed Grains Council, and the Foreign Agricultural Service (FAS) should be funded at much higher levels. The U.S. spends less than one percent of the value of U.S. agricultural exports in market development research, considerably lower than any major agri-exporting country. Current estimates indicate that every dollar spent on export market enhancement programs returns at least $48 in the soybean sector and $100 in the wheat sector.

The PL 480 program should be reevaluated and streamlined. Current requirements, approval procedures, and other red tape make it almost impossible to effectively meet the needs of many low income countries. Also, cargo preference requirements that U.S. flag ships carry 50% of PL 480 grain should be eliminated.

The sanctity of U.S. grain export contracts should be guaranteed in order to enhance our image as a reliable supplier to all nations. Embargoes and other restrictive trade policies hurt long-run prospects for U.S. grain trade and foster competition from non-U.S. sources. For example, the 1973 embargo of soybeans to Japan stimulated the development of the Brazilian soybean industry. Similarly, the 1980 Russian grain embargo and the subsequent de facto embargo after 1980 encouraged expanded grain production in Argentina and other grain producing countries. Yet another example of trade policy which had a negative effect was the 1983 politically imposed US/PRC textile dispute.

However, even if such programs are successful in stimulating demand, the United States has the supply capability to exceed both domestic and export requirements for at least the next decade. Wheat exports, for example, exploded by 190% in the 1971-81 period and yet acreage restriction and storage programs have been required since 1977 to control surplus supplies.

PRICE SUPPORT AND EXPORT SUPPLY MANAGEMENT PROGRAMS

As previously stated, every effort should be made to implement policies to stimulate demand, however, the primary focus of the 1985 Farm Bill and any export program, which is price support and supply control programs cannot be abandoned. Even if demand can be successfully stimulated, the U.S. supply capability is expected to exceed both domestic and export requirements for the remainder of the decade. Consequently, without price support and supply control programs, U.S. agriculture will continue to face the probability of excess crop supplies, volatile prices and declining income levels.

Recognizing the importance of price support and supply control programs in world agricultural policy to maintain a viable U.S. farm sector, the following observations include suggested modifications and changes in existing programs.

- Supply control programs should be structured so they will encourage long-term participation. Allowing growers to participate in an "on again - off again" manner invites market price volatility and creates considerable uncertainty among both buyers and sellers.
- The least productive and easily erodable land should be removed from production.
- The benefits, to all citizens, in terms of soil conservation should be considered when determining the rewards to be given for long-term participation or extended acreage diversion.
- The price support and supply control policies have come under considerable criticism in the last two years. Most of this criticism has, with good reason, been directed toward the level of government support for agriculture. In the last few years, the cost of government programs has risen dramatically, reaching an estimated $21 billion in 1983. Most critics point out that while government support has increased, it has not solved the problems of overproduction, low farm income, or large commodity surpluses. Wheat inventories are still running at record levels and had it not been for the 1983 drought, feed grain inventories, even with PIK, would be double what most consider a desirable level.
- Part of the ineffectiveness of government programs over the last few years can be blamed on "bad luck." During the five-year period from 1978 through 1984, the U.S. set record yields—five times for corn, and five times for wheat.
- The "bad luck" did not turn around in 1983 when the Secretary of Agriculture implemented the most massive government program in history. What happened? Wheat yields set another record which resulted in virtually no drawdown in surplus inventories and feed grain yields plunged to their lowest levels in ten years. While weather has obviously played a role in the problems that have faced agriculture in the last few years, part of the problem can also be directed toward the commodity programs. Also, the major benefit of the PIK program, i.e., high prices, was offset in 1984 by fence row to fence row production.

In general, government efforts in agriculture export trade should be directed more toward demand stimulation rather than toward supply control. However, policymakers should be cognizant of the fact that even with successful demand stimulation policies, demand is unlikely to catch up with U.S. supply capabilities during this decade. Until there is a better balance between the supply and the demand for U.S. grain, demand stimulation policies alone will not be enough to solve the problems of the agricultural sector. Consequently, U.S. supply control and support programs will continue to be necessary to maintain a viable agricultural economy. These programs need to be structured in a manner which will supply the U.S. agricultural industry with a "safety net" without encouraging overproduction.

Current farm programs are very short-run attempts at correcting depressed market prices by encouraging farmers to voluntarily commit to one-year acreage set-aside programs. The Secretary of Agriculture stated that, "The present program for readjusting productive acreage to market requirements is admittedly but a temporary method of dealing with an emergency. It could not be relied upon as a permanent means of keeping farm production in line with market requirements." The Secretary of Agriculture was Henry A. Wallace, the year was one year after the current Agricultural Adjustment Act was first enacted in 1933. Fifty years later we still have the same "temporary" voluntary acreage set-aside programs.

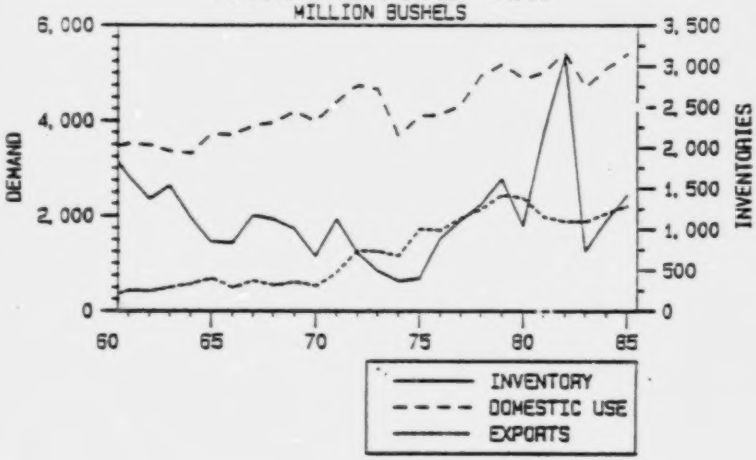
Recent government programs not only have been very short-run oriented, but their implementation has also been on a very ad hoc basis. The details of farmer acreage control programs have not even been announced until after winter wheat farmers have already planted their crops. Farmers, therefore, do not know how to plan their cropping program or what to expect from government assistance programs.

Current farm programs also are oriented toward what happened last year and/or to correcting current grain excess inventories or low prices. In addition, when voluntary acreage set-aside programs are effective in improving prices in one year, farmers abandon the program the second year because of the high capital costs in agriculture and the lack of a long-term commitment by the government to maintaining a stable program. The subsequent resurgence in production again creates surpluses and weak farm prices. Such instability has caused a major expansion in farm debts and hurt the entire farm community.

SUMMARY

In summary, U.S. agriculture has lost most of its competitiveness in world markets due to continued export tariffs and farm subsidies in developed nations, U.S. government intervention in centrally planned markets such as the Soviet Union, and high value of the U.S. dollar in all other markets. Lower U.S. farm prices as a method for stimulating farm exports will therefore not be effective and U.S. farm income will decline, thus forcing an increased financial burden on U.S. farmers or the U.S. Government through higher support payments. A long-term supply management program designed to bring U.S. suppliers in line with export demand has become an even greater necessity.

Figure 9


CORN
DEMAND AND ENDING INVENTORIES
MARKETING YEARS 61/62 - 85/86
MILLION BUSHELS

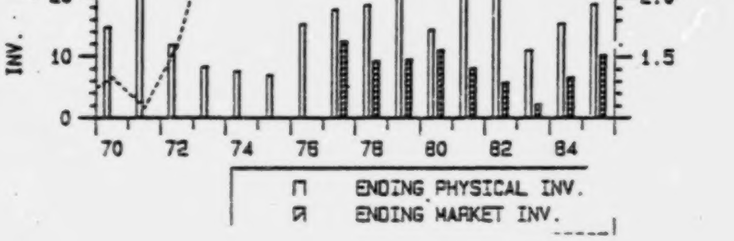

CORN
PHYSICAL AND MARKET INVENTORY AS A PERCENT OF UTILIZATION
SEASON AVG. FARM PRICE

Figure 10

CORN
PHYSICAL AND MARKET INVENTORY AS A PERCENT OF UTILIZATION
DEFLATED SEASON AVG. FARM PRICE

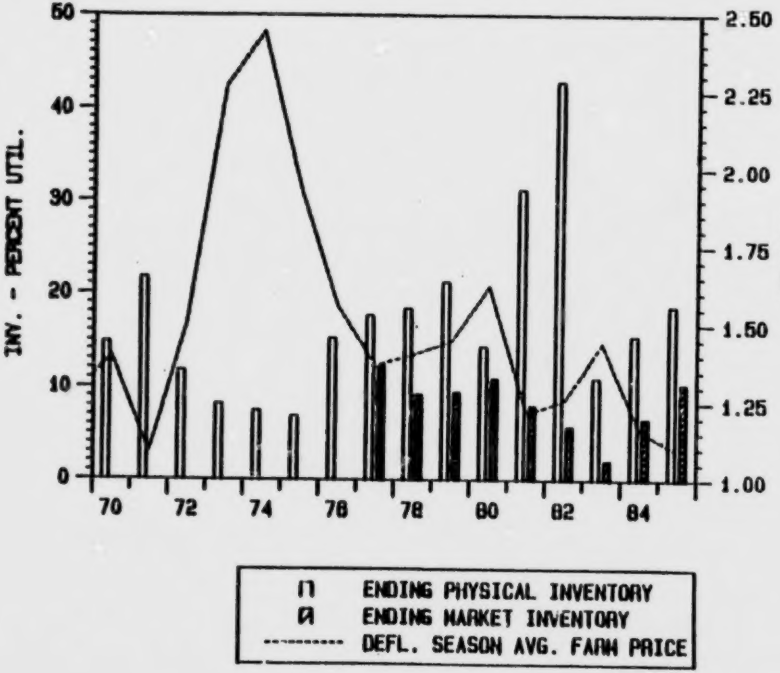
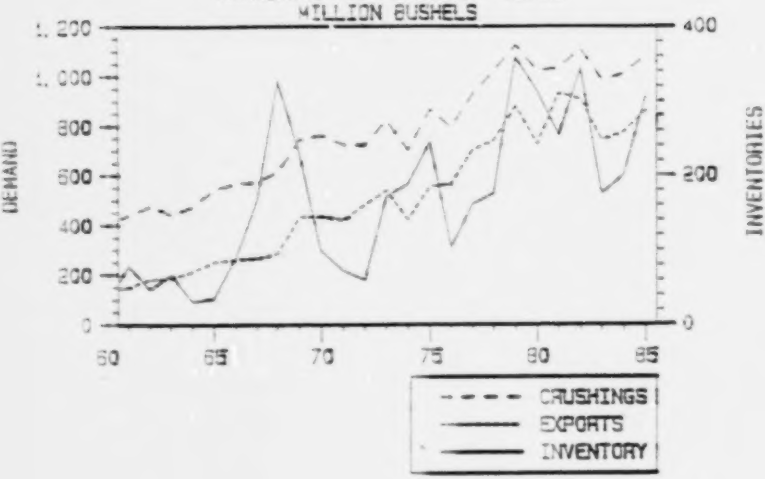


Figure 11

SOYBEAN
DEMAND AND ENDING INVENTORIES
MARKETING YEARS 61/62 - 85/86
MILLION BUSHELS



SOYBEANS
ENDING INVENTORY AS A PERCENT OF UTILIZATION
SEASON AVG. FARM PRICE

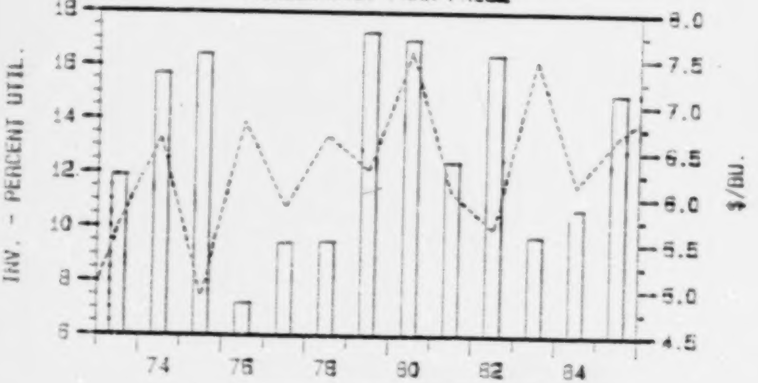


Figure 12 SOYBEANS
ENDING INVENTORY AS A PERCENT OF UTILIZATION
DEFLATED SEASON AVG. FARM PRICE

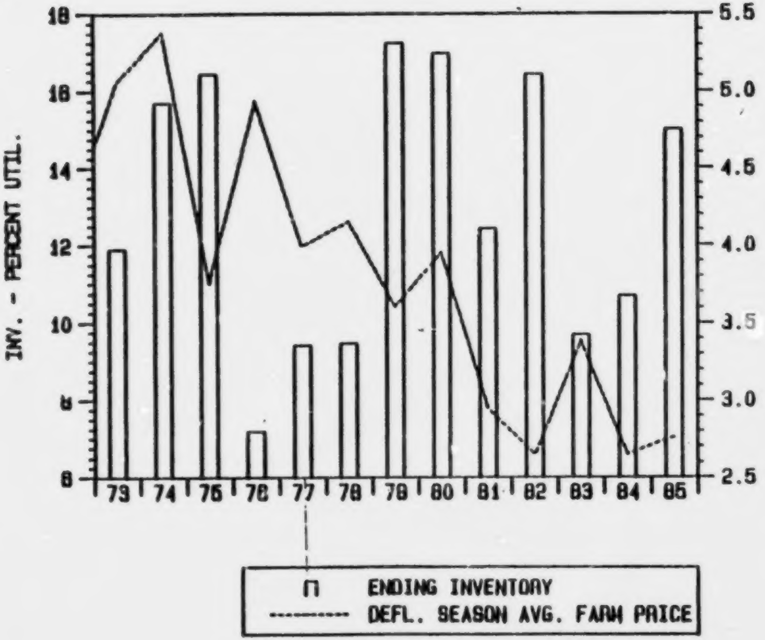


Figure 13
PRICE OF COTTON, AVERAGE SPOT MARKET
(STRICT LOW MIDDLING, 1-1/16)

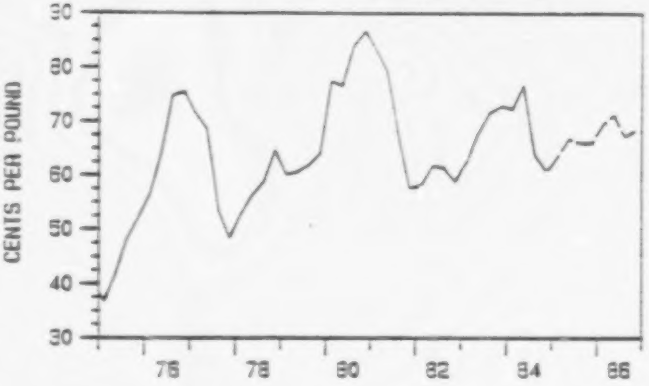


Figure 14
COTTON
DEMAND AND ENDING INVENTORIES
MARKETING YEARS 61/62 - 85/86
MILLION BALES

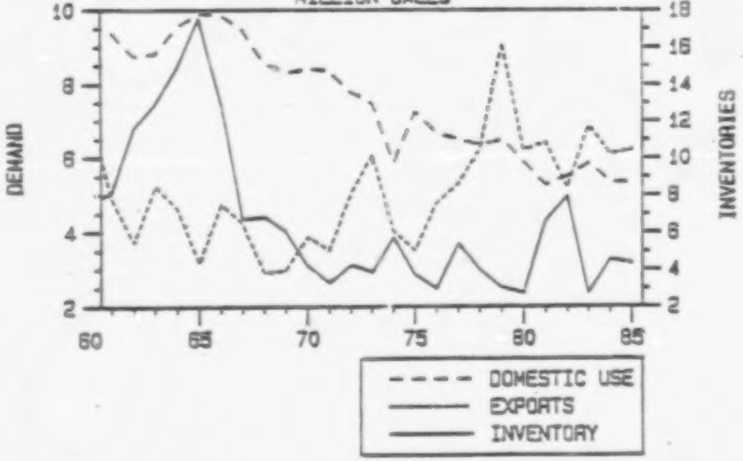


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Figure 15

PRICE OF WHEAT
NUMBER 1, HRW, KANSAS CITY

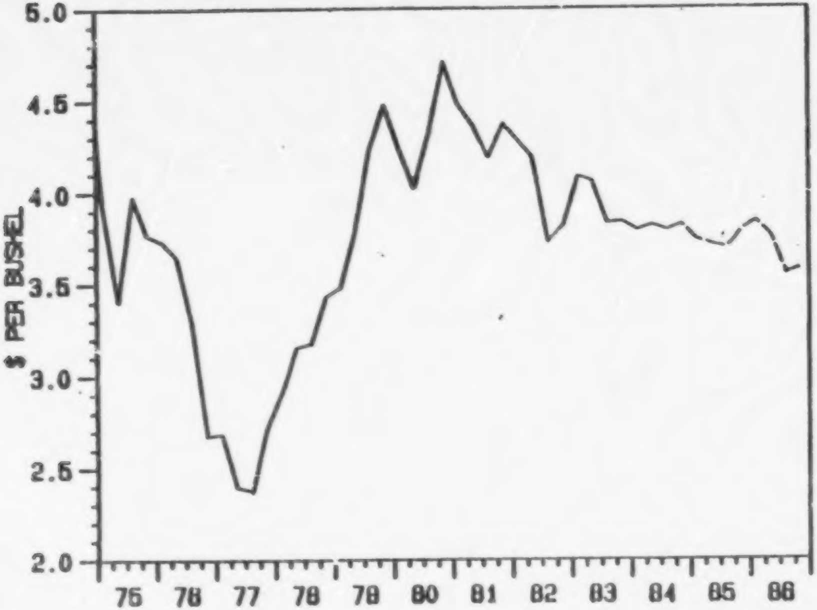
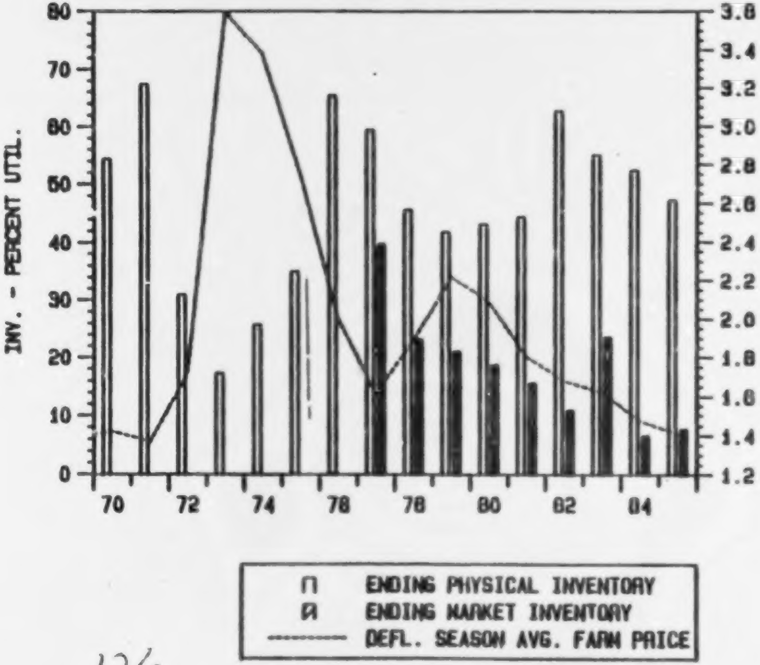


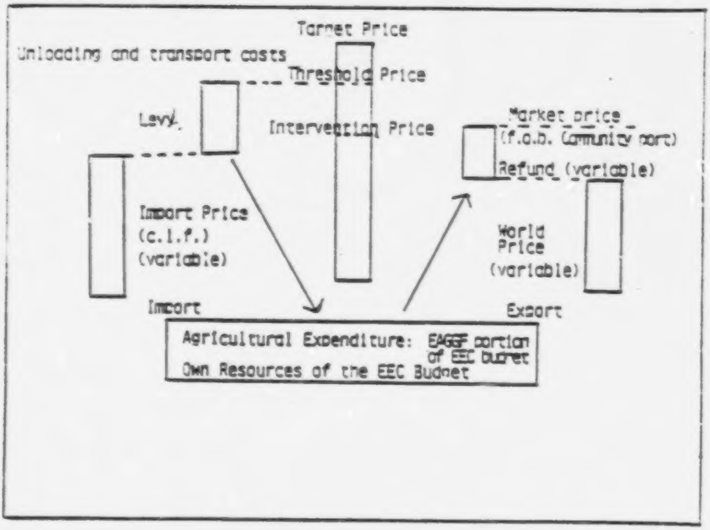
Figure 16.

WHEAT
PHYSICAL AND MARKET INVENTORY AS A PERCENT OF UTILIZATION
DEFLATED SEASON AVG. FARM PRICE



APPENDIX A

E.E.C. Wheat Policy



World Restrictions on Free Trade in Wheat Markets by Country*

Importers

European Community

Variable Levies: The EC's variable levy protects its common pricing system for grains by raising prices of imported wheat to equal the threshold or minimum import price. Levies set for soft (nondurum) and durum wheat imports since 1967 represent the difference between the lowest world offer price at Rotterdam and the common threshold price established for the EC. The same levy is applied to all grades and qualities of wheat without regard to origin. Imports into the EC are primarily hard wheats, whereas the EC (France) exports soft wheats.

A common levy is set for all EC member countries for durum and nondurum wheats, but there are several exceptions:

> *Levies on wheat imports into the United Kingdom, Denmark, and Ireland, which acceded to the EC in January 1973, were reduced by Accession Compensatory Amounts, which were equal to the difference between full EC prices and transitional prices, during the period of transition into the EC, 1973-77.
>
> *Small levy reductions are granted on durum wheat imported from Morocco and Turkey.
>
> *Levies have been reduced or increased by border taxes and subsidies (Monetary Compensatory Amounts-MCAs) since the late sixties. MCAs are applied in intra- as well as extra-EC trade in order to prevent EC support prices from fluctuating with market exchange rates.[3]

Pricing Policies: The EC's pricing system for grains includes target prices, intervention prices, and threshold prices for soft and durum wheat. Target prices represent the desired wholesale price at Duisburg, Federal Republic of Germany. Intervention prices represent a floor price at which intervention agencies purchase grain offered by producers. Since 1976/77, intervention prices for each grain have been the same at each intervention center. The threshold price is set at Rotterdam so that the target price is the same as the wholesale selling price of imports at Duisburg.

Production Subsidies: Since 1967 the EC has authorized a subsidy payable to durum wheat producers. This subsidy was uniform for all member countries until 1976 when it was permitted to vary by region. The subsidy currently is paid only in certain regions of the EC characterized by below average yields. A subsidy was also granted for wheat in feed use until 1974. The premium became obsolete in the 1976/77 market year (August-July) when a new EC pricing system was adopted whereby individual grains are priced according to feed value (24).

Export Subsidies: Export restitutions or subsidies are applied to wheat exports when prices in the EC are above world prices and exports are available. Export restitutions take into account differences between wheat prices in representative export markets, marketing costs, and other export expenses and grain prices in various representative markets in the EC. The EC can also take steps to prevent supply shortages by applying export levies fixed on the same criteria as export subsidies.

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*Source: USDA, Trade Restrictions in International Grain and Oilseed Markets, A Comparative Country Analysis, Cathy L. Jabara.

Japan

State Trading: Trade in wheat in Japan is under complete government control. Imports of wheat must be licensed by the Japanese Food Agency and all imports are sold to the government at the port. Wheat is imported on a quota arrangement whereby the government determines the quantities to be imported each year.

Pricing Policies: State trading arrangements protect the pricing and marketing system for wheat in Japan established under the Food Control Law of 1942. The government of Japan purchases all quantities of wheat offered on the market at fixed producer prices which are higher than world prices.[4] The government sells domestic and imported wheat at an established resale price determined every year. A dual pricing system is followed whereby the government sets high prices for producers and lower prices for consumers.

Production Subsidies: Wheat producers in Japan who divert paddy fields to wheat production have received a diversion subsidy since the 1969/70 (April-March) fiscal year. The diversion payment is part of the Japanese governments's program to reduce persistent surpluses of rice which have occurred since 1969 (see rice section). Farmers currently receive a subsidy of 550,000 yen (US $2,613) per hectare of paddy land diverted to wheat production. Farmers who grow wheat in rotation with rice receive an additional bonus payment of 30,000 yen per hectare (US $380).

Bilateral Trade Agreements: The government of Japan has entered into trade arrangements with wheat-exporting countries since 1972. These arrangements generally specify the quantity of wheat to be supplied and purchased for a year. The Food Agency has commitments with the United States, the Canadian Wheat Board, and the Australian Wheat Board.

Brazil

State Trading: Wheat imports into Brazil are under complete state control. The Wheat Marketing Office of the Bank of Brazil (CTRIN) has held sole authority for purchase and resale of all domestic and imported wheat since 1962. Import quantities are based upon the forecasted import requirements and are controlled through strict import licensing.

Pricing Policies: State trading arrangements protect Brazil's minimum support price system for wheat whereby the government establishes fixed prices for wheat well above world market prices. The government operates a dual pricing system which maintains resale prices to flour mills at below producer and import prices.

Production Subsidies: Additional support for wheat production is provided through production loans and subsidies. Fertilizer loans are made at zero interest cost and investments in wheat cultivation and harvesting machinery are subsidized.[5] Production loans are offered at around 22-35 percent interest, well below the rate of inflation. Production loans are based on historical yield ranges (*28*).

Nigeria

Production Subsidies: Wheat imports enter Nigeria free of duty and through a generally private marketing system. The Nigerian Grains Board (NGRB) provides a producer floor price for wheat generally equal to or below market prices. The NGRB attempts to raise producer incomes through introduction of more appropriate crops and technology and by providing subsidies on input use (fertilizer and credit).

Import Licensing: Nigeria in the past has prohibited certain imports for short periods of time in order to limit imports when its foreign exchange reserves become depleted. Wheat imports have been licensed since April 1979.

Egypt

State Trading: Imports of wheat into Egypt are largely in the hands of the Ministry of Supply, the monopoly importer of wheat and flour. Wheat imports are negotiated largely through the U.S. Public Law 480 concessional sales program.

Pricing Policies: Imported wheat is supplied to mills at subsidized prices. Prices and profit margins are fixed throughout the distribution chain. Domestic wheat production in Egypt is sold on two markets, one state controlled and the other a free market. State control of the market is effected through compulsory sales at prices below the free market which are collected by agricultural cooperatives. The cooperatives requisitioned about 20 percent of wheat production for the state in 1978 (*35*). Membership in the cooperatives is mandatory for producers.

Production Subsidies: Aid to producers for wheat production includes subsidies on pest control and fertilizer. The government also provides water for agricultural use free of charge as well as investments in irrigation infrastructure.

Bilateral Agreements: Egypt has a 3-year agreement with Australia to supply 1 million metric tons of wheat annually.

Republic of Korea

State Trading: The Korean Flour Mills Industry Association (KOFMIA), a government-recognized trade group, is the sole importer of wheat into Korea. Annual import targets are set by the Ministry of Agriculture and Fisheries (MAF) which are flexible depending upon the domestic demand and supply situation for wheat.

Pricing Policies: Support prices for the limited domestic production of wheat are announced every year by the Grains Management Fund (GMF). These prices are usually higher than world market price. Wheat purchased by the government is sold to flour mills at release prices lower than the producer support price. The difference is absorbed by the GMF.

Imported wheat is sold at a government-established import price. When import prices are above this price, the difference is paid by the Flour Price Stabilization Fund (FPSF). Similarly, when import prices are below this established price, flour millers pay the difference into the fund. The FPSF was established in 1976 by KOFMIA and the Korean government to stabilize prices of imported wheat.

Tariff Quotas: A tariff quota system for wheat is in operation in 1980 in which wheat is imported duty free up to 2 million metric tons and a 5-percent *ad valorem* tariff is applied thereafter.

India

State Trading: The Food Corporation of India (FCI), a government agency established in 1965, is the sole importer of wheat into India.

Pricing Policies: Domestic wheat is purchased by the FCI at government-established support prices. Government support prices are generally below market prices but are competitive at harvest when market prices soften. Commercial prices have generally been equivalent to world market prices since 1976. In deficit periods, the government requires farmers to sell either a percentage of wheat production or an absolute quantity of wheat to the government at the established support price.

The FCI sells lower quality wheat through "Fair Price and Ration Shops" at prices which are lower than those on village commercial markets. Indian consumers generally prefer to buy on the commercial markets even if at higher prices.

Producer Subsidies: The government of India aids wheat producers through subsidies on the cost of fertilizer and pesticides. State governments provide financial assistance and/or price concessions for irrigation water and for sound irrigation practices.

Exporters

Canada

Marketing Boards: The Canadian Wheat Board (CWB) is the sole exporting agency for wheat, oats, barley, and rye from Canada. The CWB, established in 1935, is also the major domestic marketing agency for grains. CWB exports are sold to government buying agencies acting on behalf of their countries or with private trading firms that buy grain from the CWB for resale to customers.

Pricing Policies: The Canadian government establishes initial producer payments for wheat, oats, barley, and rye. These payments are specified on the basis of anticipated market opportunities and become guaranteed minimum prices. After all grains are marketed and CWB's expenses are deducted, the proceeds are distributed to producers as final payments based upon the grades and qualities of grain delivered. If net returns are insufficient to cover the initial payments, the deficit is made up by the government. The producer can deliver a quantity of a particular grain to the CWB according to the amount of land allocated to grain, oilseeds, forage, and summer fallow.

A two-priced wheat system was introduced in 1973 whereby prices for wheat sold domestically for human consumption are fixed between a guaranteed minimum and maximum level. If export prices exceed the minimum price, millers pay the full export price up to a specified maximum price. If export prices are below the minimum price, millers pay the minimum price. Until December 1978, millers paid the guaranteed minimum price; the difference between the maximum and minimum price was made up by the government.

Canadian freight rates for export wheat are subsidized by the Canadian Pacific Railroad. It has been estimated that this rate covers only 38 percent of the per-ton cost of moving export grain (*4*).[14]

Australia

Marketing Boards: The Australian Wheat Board (AWB) has the sole authority to market wheat in Australia. The AWB operates through approved agencies such as the state grain elevator boards and licensed wheat receivers. There are no Commonwealth marketing authorities for coarse grains. Grower-controlled statutory marketing boards in some states acquire barley from producers and dispose of it in local and overseas markets. The most important of these is the Australian Barley Board which has authority to market all barley sold in South Australia and Victoria. The Western Australian Pool, a private body, handles most of the oats exported.

AWB export sales are in the form of direct sales to overseas buyers or as sales to private traders who operate within constraints imposed by the board. A conspicuous feature of Australian trade is the existence of bilateral trading arrangements, many of which apply to wheat trade.

Pricing Policies: There are no government-guaranteed prices for grains in Australia apart from wheat. Wheat pricing policy is based on the Seventh Wheat Industry Stabilization Plan (1979/80-1983/84). Wheat producers receive an initial payment set at 95 percent of the average of the pool return for the two previous seasons and an estimate of the pool return for the current season. Any deficiency between the net pool return and the guaranteed price is met by the government. Wheat marketed is subject to a levy ($2.50 per ton) the proceeds of which are earmarked for the Wheat Finance Fund, a source of funds the AWB uses to clear outstanding debt on a season's pool at the end of 12 months. A base price for wheat for human consumption was set at $127.78 and is adjusted annually according to changes in production costs and world market prices.

Under the previous stabilization plan (1974/75-1978/79), wheat producers were guaranteed a stabilization price for wheat exports. If export prices exceeded the stabilization price, producers contributed to the Wheat Stabilization Fund by way of a levy on wheat exports. When export prices were below the stabilization price, the difference was made up by the fund. A base price for domestic wheat sales was established in the first year of the scheme and was adjusted annually according to changes in production costs.

Delivery quotas for wheat were in effect during the 1969/70 and 1970/71 crop years. Total national delivery quotas were developed and shares allocated to each state. Over-quota wheat could be delivered, if space were available, and the price was fixed lower than for quota wheat.

Argentina

State Trading: The National Grain Board (NGB) was the sole seller of Argentina's grain in international markets from 1974 to mid-1976. Argentina favored multiyear bilateral trade agreements during this time. The responsibility for trade was returned to the private sector in 1976, although the government retains the role of negotiating bilateral agreements. Exporters are required to register their sales with the NGB.

Export Taxes: Prior to 1976, export taxes on wheat, corn, and sorghum were as high as 50 percent. Grain exports are currently subject to *ad valorem* taxes of 5.5 percent.

Pricing Policies: All producers were required to sell grain at government-determined prices to the National Grain Board from 1974 to 1976. The government's prices were usually below world prices which resulted in a parallel market where producers sold to neighboring countries at much higher prices. The price of wheat sold to millers through a quota system was lower than the producer price, resulting in a substantial subsidy to consumers. Grain marketing was returned to a free market basis in 1976.

The government announced a floor price for the 1979/80 wheat crop (US $3.36/bu.) in 1979. The NGB is obligated to buy wheat from farmers at either this price (adjusted by the wholesale price index) or at a price equivalent to 80 percent of the f.o.b. value, whichever is higher. No absolute price floor is established for corn or sorghum; however, farmers are guaranteed 80 percent of the f.o.b. price.

Bilateral Trade Agreements: The Argentine government maintains bilateral trade agreements with the People's Republic of China, Iraq, and the USSR. Grain sales under grain agreements can be fulfilled by the NGB or by private exporters.

Footnotes

[7] MCAs were not applied to durum wheat until 1978. Jabara and Brigida (*14*) have calculated the effect of MCAs on EC import levies for wheat and other grains.

[8] Government control over domestically produced wheat was relaxed in 1976 when domestic wheat marketing was set free. Because the government's purchase price is higher than the resale price, practically all domestic wheat is sold to the government as before.

[9] Fertilizer prices were subsidized 40 percent in 1975. This subsidy was lifted in 1976, but credit to purchase fertilizer was offered at zero interest. A subsidy was reinstituted in January 1980, at the industrial level (*28*).

[10] Transportation subsidies are the result of the Crows-Nest Pass Agreement of 1897 in which the Canadian Pacific Railroad received land and a subsidy in exchange for a reduction in freight rates.

NATIONAL
GRAIN & FEED
ASSOCIATION

STATEMENT OF
NATIONAL GRAIN AND FEED ASSOCIATION
ON
EXPORT COMPETITIVENESS
BEFORE THE
SUBCOMMITTEE ON DEPARTMENT OPERATIONS, RESEARCH AND FOREIGN AGRICULTURE
COMMITTEE ON AGRICULTURE
U. S. HOUSE OF REPRESENTATIVES
BY
RICHARD GOODMAN
APRIL 16, 1985

Mr. Chairman and Members of the Subcommittee:

My name is Richard Goodman. I am a Vice President with Continental Grain Co., New York, New York. I serve on the Agricultural Policy Committee of the National Grain and Feed Association, which I represent in my appearance today.

The National Grain and Feed Association is a voluntary association of grain and feed firms. The operations of our 1,250 members include country elevators, terminal elevators, processors and exporters. There are 48 state and regional grain and feed associations affiliated with the National Grain and Feed Association that represent upwards of 10,000 grain and feed companies nationwide. Our members provide the marketing system needed to distribute our country's abundant agricultural production from producers to both domestic and foreign consumers.

Post Office Box 28328 · Washington, D.C. 20005 · Telephone 202/783-2024

We appreciate the opportunity to appear before you today to present our Association's view on an issue that we consider to be most important and timely. Indeed the issue of export competitiveness on agricultural commodities is a challenge before us that threatens the future of everyone involved in U.S. agriculture.

An assessment of our current export competitiveness is easy. We are losing markets at a rapid pace and the evidence is everywhere.

--This year, the United States will export 54 percent of the total world trade in feed grains. In 1979, the U.S. share of that market was 72 percent.

--This year, America will export 36 percent of the world wheat trade, compared to 48 percent in 1981.

We could look at soybeans or any other bulk agricultural commodity. The situation is much the same -- over the last 4 to 5 years, the best markets we have are stagnant. Most agricultural markets, particularly export markets, are on a decline, and we probably have not seen the worst. Serious students of export markets are predicting that U.S. wheat exports could be less than 25 percent of the total market next year. We think it is very likely that total exports of wheat, corn and soybeans for 1985-86 will drop below the 4 billion-bushel level, the lowest level in 10 years and, potentially 25 percent under the peak of 1979-80. These figures are alarming.

As U.S. agriculture has become dependent on export markets, the income prospects of farmers are inexorably linked to exports.

The Problems

The problems with exports are very familiar. The world is just beginning to fully recover from recession and debt-ridden countries are in many cases still strapped for cash. Unfair trading practices of certain nations have also taken away some traditional markets, but the effects of subsidized competition have probably been overstated. A large majority of exporting nations employ no such practices; Argentina, for example, even taxes agricultural exports.

By far the two most influential factors eroding the U.S. export competitiveness since 1980 have been the increased value of the dollar and domestic agricultural programs. These two factors have worked in tandem to price U.S. grain out of world markets. In some cases, U.S. grain prices today are one-third higher than grain from foreign sources. With this kind of price spread, there is little question why importing nations are cancelling so many orders for U.S.-origin grain. At current prices for U.S. and foreign produced grain, there are strong incentives even to import grain into the U.S.

Taking Corrective Action

Certainly a lower valued dollar in relationship to other major world currencies would help the U.S. become more competitive, but the run-up in the dollar's value would have considerably less influence if domestic farm policies were more flexible. Until the U.S. adopts a system of flexible price supports in its agricultural programs, our export competitiveness will continue to be adversely influenced by fluctuating currency exchange rates.

Fluctuating currency markets are a reality in world trade and will continue to be a major factor in industries dependent on exports. Surely as the dollar has inflated in value, it will eventually retreat again and probably go through many more ups and downs in the distant future. However, it would be a serious mistake to simply wait until the dollar falls in value or to believe it would fall far enough to correct the problem in our competitiveness worldwide. The basic reasons for the dollar's strength -- a large deficit and growing U.S. economy -- are unlikely to change anytime soon.

We support and commend the Congress in its efforts to trim deficits. Making the hard decisions necessary to restore fiscal responsibility will greatly help both export competitiveness and farm incomes in the future. But recognizing political realities, this deficit reduction process and the resulting impact on the dollar, will take several years. U.S. agriculture cannot afford to wait.

Restoring Export Growth and Prosperity to U.S. Agriculture

For fifty years, we have operated under the same kind of farm programs. For fifty years we have had variations of loan rate programs, income support payments and land diversion. In 1985, we find ourselves continuing our struggle to make these outdated programs work in a totally different environment. We are in a new ball game and the old rules do not fit.

The international system of fiscal exchange rates went by the wayside in the early 1970s. Many foreign nations have become highly efficient food producers. Many others are striving for self-sufficiency. These developments and the new openness of the world economy have made our policies of rigid farm programs obsolete. Our loan rates no longer just guarantee prices to American farmers, they now guarantee prices to the world. And at today's exchange rates, those price guarantees to foreign competitors are very attractive. Our acreage reduction programs do not raise U.S. prices anymore. U.S. acreage reduction programs invite our export competitors to increase plantings to supply markets that we voluntarily give up by diverting land.

To continue these policies or make cosmetic changes in our farm programs would be irresponsible. If we fail to make substantive and constructive changes in programs that are fundamental causes of declining exports and farm income, the American farmer will be the loser. Neither can these changes be gradual. Such delay tactics will only cause greater losses in markets and prolong the economic pain.

A Farm Program for Recovery

Regardless of what farm policy decisions are made in 1985, we believe U.S. agriculture faces difficult economic times ahead for at least the next two years. We believe this is true because of two basic facts. First, it will take some time for markets to recover. Even if we immediately stopped giving export competitors price guarantees, these countries have their agricultural sectors in high gear. It will take time before we see foreign production responding to U.S. policy actions. Secondly, we know that federal budgets for agriculture are not unlimited. If they were, the short term income pressures of producers could be completely eliminated by income support measures.

Because of these constraints, we firmly believe that the difficult economic times in the short term cannot be avoided, regardless of government farm policy decisions. However, we also believe that with the correct policy prescription in 1985, U.S. agriculture can begin the recovery process.

What we need in 1985 legislation is a program that can make the needed adjustments in agriculture as quickly as possible. With the right policy, economic recovery can begin in two or three years. If we delay or devise the wrong programs, recovery will only be delayed to 5 years or more. We need a program that makes the best use of government monies that are available to support farmer incomes through the necessary adjustments. Finally, and very importantly, we need a program that is fair to producers. The next farm bill should be out front with producers. They need to know at the outset that Congress does not have a limitless budget to use to buy back instant farm prosperity. Producers deserve to know as early as possible what kind of income support will be available from government in the next few years. We think that the right farm policy for 1985, and the one that is most acceptable to farmers, is one that offers the best hope of recovery in the shortest time frame and a program that lets the farmer know how much government support he can expect in the next few years so that he can plan efficiently.

The most important change in farm policy that must be made in 1985 is the swift elimination of programs that artificially support prices and hold U.S. grain off the market, both of which seriously impede our ability to compete. There are several parts to this kind of policy adjustment. It encompasses loan rate policy, land diversion and reserves.

Loan Rate Policy

-- Loan rates must be related to the market and to make the U.S. competitive again in export markets, the adjustment in loan levels should be done as rapidly as possible. Based upon current world price levels, loans set at 70 percent of the average of the previous three-year market prices would do the most to lead to rapid recovery in export markets.

-- To make loan rates truly market oriented, recourse loans would be preferable to non-recourse. However, if non-recourse loans are continued, the government should change its policy on interest repayment. Interest should be charged on commodities forfeited to the government. If loans are paid back, interest should be forgiven. This policy change would eliminate the artificial escalation in support levels caused by interest accumulation that results in greater forfeitures to CCC.

Land Diversion

-- Land diversion policy is critical to future U.S. competitiveness. PIK and other acreage reduction programs since 1980 have inhibited our ability to compete at least as much as excessive loan levels. In addition, promoting reasonably full use of our agricultural capacity is in the national interest. A large part of the agricultural industry lies beyond the farm gate. The U.S. has been able to capitalize on market opportunities because private industry and farmer-owned cooperatives built an efficient infrastructure to supply inputs and market farm outputs.

We have to remember that this efficient marketing system is not a permanent feature that will always be ready if and when we are ready to use it again. Our export capacity is currently being utilized at less than 50 percent of capacity. If this continues for any appreciable length of time, and it will if we do not change farm programs, capacity will shrink. Even more important, every year we continue our current program structure, we encourage our competitors to build more handling facilities and more efficient infrastructure that will make them even more formidable competitors in the years ahead. For these reasons, all acreage reductions and set-aside authorities should be eliminated.

Grain Reserve

-- Some form of a strategic reserve of grain to avoid food shortages is a necessary and justifiable expenditure of public funds. But the current program needs to be changed. Under current rules, the reserve can be used just like loan rates and acreage reduction to create artificial shortages and artificial price support. Even though such artificial price support is extremely short-lived in open world markets, our competitors respond accordingly -- planting more to sell in world markets.

We urge the following changes be adopted in the reserve program:

-- The reserve needs to be capped at a level so that stocks do not become excessive, possibly 15 percent of annual wheat utilization and 10 percent of annual feed grain utilization.

-- Incentives for grain entry into the reserve need to be lowered to avoid the situation of artificial price support through the reserve.

-- Release triggers for the reserve should be abolished. Having pre-established release levels can create artificial market shortages. In the last year, the U.S. has imported Canadian wheat because release prices created artificial barriers restricting the exit from reserve of selected wheat types needed by U.S. processors.

Income Support Payments

-- If a market-oriented loan is implemented in 1985 legislation, direct payments will be needed. They should be more generous in the early years of the program because this is when the greatest income pressures for producers will come.

-- The most important thing about addressing deficiency payments or other direct government payments to farmers in a market-oriented program, is that the linkage between income supports and price supports be broken. The target price concept does not accomplish this because there is great temptation for government to control acreage to raise prices temporarily in order to reduce budget exposure.

-- The best and fairest way for these direct payments to be made is also the simplest. Income support payments should be made directly to farmers on a per-bushel or per-acre basis on 1985 base acreage with no stipulated requirements for planting the crop to receive payments. Payments should be set at pre-specified levels that are unrelated to market price or any other factor. In short, budgetary limitations should determine what can be afforded. They should be gradually phased down over three years, but farmers should know what the payments are at the outset. This will provide a gradual phase-out of the income payments for those commodities where payments are now being made in the form of deficiency payments. The payments will be known for three years which will help producers plan. If the payment levels will not provide adequate income, farmers will have the opportunity to plan how to get out of farming during this adjustment period or to invest further if they find it profitable. Having the payments set on 1985 base acreage will keep the income support from interfering with planting decisions which will be determined by market signals, as they should be.

There are other changes in programs that would help make the U.S. more competitive in export markets, but these are fundamental changes that we believe are absolutely necessary if we are going to start to rebuild U.S. markets and producer income.

We know these changes will not be palatable to some in U.S. agriculture. Those that think we should retrench U.S. agriculture and grow grain only for domestic markets by raising support rates and controlling acreage through government mandate will be dissatisfied. But what these people fail to realize is that retreating from world markets is not so easy in an open world economy.

Maybe we could initially retire 50 percent of our farmland, 50 percent of our productive assets and forget about all the associated adverse impact on the national economy in terms of GNP and employment generated by exports. But the process only begins there. Grain and food prices would have to continue to be escalated to support asset values. As price differentials widen between domestic U.S. prices and prices for grain from foreign sources, economic pressures for importation of grain and food would grow. Maybe if the U.S. started importing grain, we wouldn't need to use the entire 50 percent of our productive agricultural assets. Eventually, maybe 25 percent or even 10 percent of all current agricultural assets could be adequate to meet U.S. consumption needs above the levels we could import.

This kind of isolationist policy is not very sound for the reasons just mentioned. But, ironically, our present policies -- those policies embodied in the Agriculture and Food Act of 1981 -- are most assuredly driving us toward isolationism. The process is one of gradual isolationism, moreover, one of slow death for agriculture. The process has to stop and 1985 is the year to do it.

The government and producers need to form a partnership to get out of this policy quagmire that threatens the future of U.S. agriculture. Government programs have created much of the problem. The government needs to pay part of the cost to get us out of the mess.

The interim income payments made to producers to supplement income while rebuilding export markets need to be as generous as the budget process will allow. But to be fair with the farmers at the outset, they need to know how much income support they can expect from government during this adjustment period. If farmers understand that these program changes are necessary for their continued survival and they have the commitment from government on how much temporary additional support will be available, we think the producer segment will be much more willing to accept the needed policy changes.

Our Association appreciates the opportunity to present our views. I would be happy to respond to your questions.

STATEMENT OF NELSON DENLINGER, EXECUTIVE VICE PRESIDENT
U.S. WHEAT ASSOCIATES, INC.
TO THE
SUBCOMMITTEE ON DEPARTMENT OPERATIONS, RESEARCH, AND FOREIGN AGRICULTURE
OF THE HOUSE AGRICULTURE COMMITTEE
WASHINGTON, D.C.

APRIL 16, 1985

Mr. Chairman and members of the Subcommittee. My name is Nelson Denlinger, and I am Executive Vice President of U.S. Wheat Associates. I am here today to testify on behalf of U.S. Wheat Associates and the wheat farmers in the 14 wheat-producing states which we represent.

U.S. Wheat Associates is a market development organization funded by check-off funds in 14 states and the Foreign Agricultural Service of the U.S. Department of Agriculture. We work to increase the export sale of U.S. wheat through milling, baking, marketing and related activities abroad. We do not become involved in domestic farm policy issues or legislation in general, but from time-to-time we do appear before Congressional committees such as yours in order to provide information on specific trade issues which we believe are having serious impact upon U.S. wheat export trade.

I would like to begin by congratulating the Subcommittee on holding these hearings. I believe that they are particularly timely in view of the rather desperate situation in which we find ourselves with regard to export markets and the heavy emphasis being placed on export markets as a major avenue of relief to the current crisis in U.S. agriculture.

As I mentioned earlier, we are the export development organization reprepresenting U.S. wheat farmers overseas. In order to accomplish this goal, we maintain 13 regional overseas offices and are in daily contact with major wheat markets around the world. Our overseas staff is in regular contact with the key buyers and decision makers in the main wheat markets around the world.

As I am sure you are aware, the export situation for wheat, as well as other U.S. agricultural commodities, has made an appreciable change for the worse since the high-water mark of 1981. In terms of wheat exports, we have seen our export sales fall from 48.2 million metric tons in 1981 valued at $ 7.919 billion, to estimated sales during the 1984-85 crop year of 39.4 million tons at $ 5.949 billion. This represents a decline in market share from 48 percent to approximately 35 percent of world trade. In my view, there are a number of factors responsible for this decline in export volume and market share, all of which are within the scope of interest of this Committee, and I would like to take this opportunity to address what I consider to be three of the major factors in our current difficult situation.

Our most severe, immediate problem today is the impact of the overvalued dollar upon our ability to be competitive in world markets. The dollar has appreciated by more than 35 percent against most of the major currencies of the world, and the impact of this appreciation has been to make our products more expensive to our foreign customers as well as provide our competitors with more room for price cutting in world markets. In recent weeks we have had indications that U.S. wheat export sales were lost in Turkey because while the credits were available under GSM-102, they were concerned that the U.S. dollar would be even stronger when the debt was due to be repaid in the future.

We have seen reports of U.S. manufacturing firms expanding their overseas operations because of the strong dollar and U.S. jobs being lost. In agriculture, we see the same trend in operation with sales down, equipment sales depressed and the entire U.S. export infrastructure undergoing a major reduction. Meanwhile, our major competitors are expanding their facilities and their production.

Clearly the impact of the unexpected and unusual strength of the dollar has extended well beyond U.S. wheat export sales to include all agricultural and non-agricultural exports as well as import-sensitive industries within the United States. Unfortunately, many of the steps taken to protect import-sensitive industries within this country have adversely impacted agricultural exports and wheat exports in particular. I will not elaborate further on the impact of the overvalued dollar since the members of this Subcommittee are well aware of the effects of this phenomenon.

However, I would take this opportunity to express a very great concern with some proposals which are currently being discussed in Congress with regard to protection of import-sensitive industries with little or no regard for the impact on industries such as agriculture which are heavily dependent upon exports and are just as severely impacted by the effects of the strong dollar.

A second major factor in the current decline of wheat exports has been the trading practices of competing producers. In terms of long-term concerns that we have in regard to wheat exports, I would have to rank the European Economic Community's (EEC) subsidization programs very high on the list. Recently, the European Community's reliance on subsidy programs has been lessened considerably by the strong dollar, but in any event, EEC export policies have been a problem for many years and will continue to be a major concern. Since EEC domestic support levels are normally substantially above world market prices, it has been necessary for the Community to create artificial economic incentives to export when supply overruns domestic demand, as well as to erect economic barriers to imports in order to protect domestic prices. Clearly the governments of the European Economic Community have made the decision that the protection of domestic agriculture and the social values represented therein are a high priority, and we certainly have no quarrel with that. However, the result of extremely high domestic support levels has been an almost 50 percent increase in domestic production since 1975, while domestic consumption has increased by less than 10 percent. Consequently, the EEC has more than doubled wheat exports during that period through the use of substantial export subsidies.

without going into great detail as to the method of establishing subsidization rates, it is sufficient to say that the European Community determines what levels of wheat are to be exported and establishes export subsidies accordingly. These refunds are also frequently adjusted to offset ocean shipping rate disadvantages which may exist for the Community.

Despite the fact that there has been considerable discussion between the U.S. and the EC over the past few years concerning subsidization, there has been very little indication that any means short of economic necessity will bring about a meaningful change in the program. Unfortunately the current strong dollar situation has given the Community a reprieve on what could have been a very substantial budget problem during the most recent two years. The impact of the decline of most European currencies against the dollar has been such that the European Community has been able to export with fairly low subsidization levels. Until the Community takes someaction to limit the growth in domestic production, it is highly unlikely that mere rhetoric from the U.S. will be very successful in bringing about significant changes in E.C. export policy.

In terms of the trading practices of other competing exporters, it is necessary to briefly mention the pricing practices of the Wheat Boards of Canada, Australia and Argentina. Since these Boards are the sole sellers of wheat for export from these countries, they are able to work on a system of administered prices, and using U.S. prices as a benchmark, quickly undercut those prices in order to increase their market share. This is especially true in markets which purchase privately rather than through public tenders. I might also add that our competitors not only cut prices but they offer credit at reduced rates, provide "bonus" wheat and furnish facilities such as elevators as a buying incentive. Aided by the strengthening dollar against domestic currencies, Canada and Argentina have been most successful in increasing their market shares. Since 1981, the U.S. share of world wheat trade has gone from 48 percent to well under 40 percent, while Canada has gone from 17.5 to 22 percent, and Argentina has gone from slightly over 4 percent to more than 10 percent of world wheat trade. One major factor which has allowed our competitors to increase their market share has been a proliferation of long-term agreements with importing countries. These agreements frequently include pricing mechanisms and guaranteed quantities to be supplied. Since the U.S. marketing system does not lend itself well to the negotiation of such agreements and there have been deep philosophical objections to such agreements within the U.S. government as well as the grain industry, we are increasingly becoming a residual supplier in a world market with an ever-decreasing residual. We estimate that 35-40 percent of world wheat trade is currently covered by long-term agreements.

I have briefly outlined some of the practices of competing exporters which have given us serious concern during this period of declining market share and producer prices. There are obviously also concerns from the standpoint of trade barriers in importing countries. However, this has not been as severe a problem to us as that experienced by other U.S. agricultural commodities in most cases, and in the majority of instances has not placed U.S. producers at a disadvantage vis-a-vis competing exporters. I might mention two specific items in this regard. The first is the requirement that all wheat imported into some countries must be sold by a local trading company. This has been a long-standing practice in Japan and apears to be developing in Korea as well. We feel that in many cases this requirement limits competitiveness and does not allow American grain exports free access to those markets. A second concern is that in many grain-importing countries purchases are made through private negotiations and not through public tenders. We realize that it is highly unlikely that the United States can bring about significant changes in these practices, but it does periodically raise serious questions as to what the actual terms of trade were and what incentives might have been used to close the deal.

As a final note, I would like to very briefly touch on some specific actions by the U.S. Government in recent years which have severely impacted our access to a number of markets. Obviously the series of grain embargoes during the 1970's concluding with the 1980 Soviet embargo have now had a serious impact, not only on our access to markets but also upon production practices of competing nations. Aside from the embargoes, in recent years there have been a series of trade disputes between the U.S. and wheat importing countries which have severely affected our exports to those countries. The most notable example of this has been the textile dispute with the People's Republic of China. In the interest of protecting the domestic textile industry, actions have been taken which have severely impacted our wheat sales to the PRC and probably will affect our sales there for many years to come. It is my understanding that there is currently legislation in both the House and Senate which would establish reduced textile quotas on many of our best customers. If this legislation does become law, it will clearly impact not only the PRC market but other Asian markets as well. We feel very strongly that some consideration should be given to the retaliatory effect of these types of actions. Other areas of government activity which have been detrimental to our marketing efforts include periodic use of CCC credit programs to accomplish diplomatic objectives. In many instances, this type of activity has resulted in credit being withheld for a considerable length of time during which the importing country purchased elsewhere. The State Department and other Government agencies appear to have little regard for the fact that sales of food products must be concluded on a very timely basis.

A final comment is also directed toward the proposed 15-fold increase in the origination fee on all U.S. Government guarantee credit programs. It is our understanding that the provisions of the proposal from the Office of Management and Budget would result in additional costs of approximately 20 cents per bushel or roughly $183,500 per 25,000 ton cargo of wheat. This additional credit cost would more than offset any competitive advantage that our credit programs have been providing us, and in my opinion, over the past two years our credit programs have been the primary factor which has kept us in many foreign wheat markets. In our view, the adoption of this proposal would be a total disaster in terms of expanding or even maintaining current export levels.

In the same vein, the recent court decision regarding the applicability of cargo preference rules to the blended credit program, as well as a statement indicating that this should also apply to the GSM-102 guarantee program, has effectively killed the blended credit program and threatens the entire CCC export credit program. In our opinion, it is imperative that legislative action be taken immediately to correct this situation. Pursuing this issue in the courts is likely to be time-consuming with the outcome very unclear. Our producers are looking to the Administration to support legislative change as proposed by Secretary Block. Prompt action is needed by the Congress on this legislation so that a bill goes to the President and the $536 million which has been suspended under the blended credit program can be opened for business. We need blended credit as a part of the total credit program that the USDA can offer to match what our competitors provide.

I appreciate your attention and the opportunity afforded me to appear before you today. Thank you very much.

STATEMENT OF THE HONORABLE

MARK D. SILJANDER

Mr. Chairman, thank you for allowing me to testify before the Department Operations, Research, and Foreign Agriculture Subcommittee. I appreciate the opportunity to call my colleagues' attention to a bill I introduced on January 3, 1985, the Agriculture Export Trade Equity Act of 1985 (H.R. 201). It is my hope that the concepts contained in this bill can be incorporated into the export title of the Farm Bill.

The current farm crisis has caused the United States to re-examine its policy towards our nation's farms. We have two choices: 1) we can either reduce the supply of farm goods by allowing the collapse of thousands of farmers and creating disincentives for production, or 2) we can expand the market for our agricultural products, keeping most farmers in business while reducing the domestic supply and raising commodity prices. One way to expand our markets is through increased exports.

American farmers, however, are facing an uphill battle in their attempt to sell their products abroad. European export subsidies and the strong dollar are drying up many foreign markets. This is not only hurting the balance of trade, but it is also costing thousands of American workers their jobs. Agricultural goods account for 20 percent of American exports each year. Yet American traders face a number of significant trade barriers on the world market and often lose out when bidding against foreign competitors.

Every U.S. sale lost to foreign subsidies hurts the American economy. As the OMB and the CBO has stated, every $1 billion lost in exports puts 25,000 Americans out of work. If this is true, then the current $15 billion trade balance deficit means a loss of 350,000 jobs. The European Community has been a particulary sharp thorn in the side of American exporters. Through the use of aggressive export promotion and subsidies, it deprives the U.S. of up to $5 billion worth of exports each year.

I participated in the annual meeting of the European Parliament in January of 1984 and asked members of the Common Market to drop their trade barriers against U.S. exports. Upon my return to Washington, I introduced The Agriculture Export Trade Equity Act (H.R. 201), designed to promote American agricultural exports. If approved by Congress, this bill will:

- enable American farmers to compete with nations which subsidize their farmers,
- save thousands of jobs,
- help nations experiencing food shortages to feed their hungry, and
- reduce federal spending by cutting the cost of storing agricultural commodities.

The Agriculture Export Trade Equity Act of 1985 specifically instructs the Secretary of Agriculture to:

- target only those commodities and products that have been adversely affected by foreign export subsidies, for example: wheat, feed, grains, upland cotton, rice, milk, and their products, and any other agricultural commodities or products acquired by the Commodity Credit Corporation (CCC),
- authorize an export payment-in-kind (PIK) program that would allow American producers to match the deals offered by their foreign competition,
- provide for the shipment of 100,000 tons of dairy products in fiscal years 1985 and 1986,
- encourage the use of processed and protein-fortified agricultural, value-added products in Public Law 480, and
- use barter as a means of reducing the agricultural surplus.

Benefit to the U.S. Economy--the Baker's Dozen

The bill includes an export payment-in-kind (EPIK) program that would allow American producers to match the deals offered by their competitors by offering buyers a sort of "baker's dozen." The EPIK program would use CCC surplus to offset foreign subsidies.

For example, if a competitor was selling wheat below the world market price, the CCC would add quantities of its inventories to each American sale, so that even though the foreign unit price was lower, the "bonus" provided by the CCC would make the net U.S. price the same.

The proposed EPIK program calls on the Secretary of Agriculture to:

- consider all potential foreign buyers, but give priority to those who have traditionally purchased U.S. commodities,
- ensure that the program does not hurt those American commodities already being sold abroad, and
- prevent buyers from reselling their commodities to other countries.

Benefit to the Taxpayer

H.R. 201 contains no additional cost to the taxpayer. In fact, this bill would actually save money by decreasing the surplus, thus reducing storage costs. Surplus crops are collected by the government to serve as a backup in the event of a national shortage. But there has been no national food shortage and as a result the size of the surplus continues to grow. The CCC currently stores the excess at considerable cost to the taxpayer, coming up with a bill of $382 million in 1983.

The bill also requires the Secretary of Agriculture to export no less than 100,000 metric tons of dairy products during each of the next two fiscal years. Because dairy goods are the most perishable and expensive commodities to store, the savings would be substantial.

Benefit to Nations Experiencing Food Shortages

While the United States spends billions of dollars storing its surplus, millions of people in underdeveloped nations are starving. And the American people have been looking for a way to get their excess to those in need.

H.R. 201 would help by requiring the President to consider both the short-term needs of Third World nations and the long-term needs of the American farmer. The nutritional value of food shipped to developing nations will be carefully considered, and the use of processed and protein-fortified foods will be encouraged. An increase in the use of such value-added products would not only increase nutritional benefits to the Third World but also provide even more jobs for Americans.

Barter Provision

In 1950, the U.S. began to barter with other nations. This time-honored swapping of goods was successful for 23 years until it was abandoned in the early 1970s because of the strength of the foreign export market. Since then barter has been used sparingly, with the latest example being an exchange of American dairy goods for Jamaican bauxite in 1982. Although barter currently accounts for between $200 and $800 billion worldwide or 10 to 40 percent of the world trade, the United States has been content to let other nations reap the benefits.

H.R. 201 would tap into this huge market by encouraging the Secretary of Agriculture to make greater use of the barter system. A barter program would reduce the CCC surplus, allow the United States to cut the trade deficit and at the same time obtain certain strategic materials not readily available in this country. H.R. 201 would encourage the U.S. to trade wheat for cobalt, grain for tin or corn for manganese. These critical materials could then be placed in reserve to be used in the event of a worldwide shortage.

Under a cash system, nations selling strategic materials to the U.S. often use the proceeds to buy agricultural goods from America's competitors. This could not happen under barter. American dollars would be kept in American hands.

Conclusion

H.R. 201 will help American farmers overcome the substantial trade barriers they face in overseas markets through the export payment-in-kind program. American tax dollars will be saved by reducing storage costs, and a major step will be taken to end world hunger.

The Agricultural Export Trade Equity Act will strengthen the domestic economy by increasing U.S. agricultural sales and preserving the family farm. I would appreciate your consideration of incorporating these concepts into the Farm Bill.